This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

Usage guidelines

Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

+ *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.

+ *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.

+ *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.

+ *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

About Google Book Search

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at http://books.google.com/

THE ROMANCE OF LIFE INSURANCE

WILLIAM J. GRAHAM

SIGILLVM · VNIVERSITATIS · CALIFORNIENSIS
FIAT LVX
MDCCCLXVIII
EX LIBRIS

THE ROMANCE OF LIFE INSURANCE

UNIV. OF
CALIFORNIA

UNIV. OF
CALIFORNIA

Copyright by Harris & Ewing, Washington.

THEODORE ROOSEVELT.


"The business of life insurance vitally affects the great mass of the American people."—THEODORE ROOSEVELT.

THE ROMANCE OF LIFE INSURANCE

ITS PAST, PRESENT AND FUTURE

With particular reference to the Epochal Investigation Era of 1905 - 1908.

DEDICATED

To the public it hopes to serve, through the personages of the Insured it would instruct, the Uninsured it would persuade, the Agent it would assist, the Legislator it would counsel

By

WILLIAM J. GRAHAM

Fellow Actuarial Society of America, Member American Mathematical Society, Fellow American Statistical Association, Fellow American Society for the Advancement of Science, Member Circolo Matematico di Palermo, Member Societa Italiana per il Progresso della Scienze, etc.

THE SPECTATOR COMPANY

CHICAGO OFFICE: INSURANCE EXCHANGE

Sole Selling Agents

135 WILLIAM STREET, NEW YORK

HG 8771
.G8

Copyright, 1909, by
William J. Graham

UNIV. OF
CALIFORNIA

TABLE OF CONTENTS

258740

INDEX OF ILLUSTRATIONS

PUBLISHER'S PREFACE

IN April, 1908, *The World To-Day* announced the publication of a series of articles on "The Romance of Life Insurance," by William J. Graham, and made the following advance statement of its purpose:

"We are appalled at the havoc unthinkingly wrought as one result of life-insurance agitation within the last three years. That popular misunderstanding of the real significance of events in life insurance has brought about a halt in the business, and a disintegration of agency forces organized at large expense and equipped to spread the sound economics of life insurance, is little short of a national calamity. In the judgment of this magazine, these troubles have arisen not from publicity, but from an abuse of it, that can only be corrected by publicity of the right sort.

"We can conceive of no topic with power to appeal more intimately to the reading public than that of life insurance, when properly handled. Life insurance is a matter of concern to the individual, to the family, and to the State. It involves problems of human life — a study second to none in human interest. Entertainingly related, the colossal proportions of life insurance can be developed to command interest beyond the possibilities of iron, steel and other industries, when magnified into romances.

"There is, in addition to this, a scientific side to life insurance. To evolve and measure in money equivalents probabilities of human life and death calls into play mathematical, medical and legal science.

"With this underlying basis, 'The Romance of Life Insurance,' told in forcible and scintillating style, never too

deep to become involved, will command attention, while the story of life insurance, its upbuilding and its position as an economic necessity, will be emphasized to the benefit of the reader and the insurance public."

The articles were published as scheduled, beginning with the issue of June, 1908, and concluding in the May, 1909, number, meeting with immediate favor. In fact, no series of articles on life insurance ever before attracted such attention or so fully covered present-day problems.

Walter S. Nichols, actuary of wide experience and editor of the *Insurance Monitor,* succinctly describes the success of the series when he wrote:

"Mr. Graham has rivaled the professional writers of fiction in the interest with which he has clothed his narratives and the vivid pictures which he has sketched, while at the same time he has sacrificed nothing of their fidelity to truth, or their educational value to the public. 'The Romance of Life Insurance' has been written with this purpose in view and is admirably adapted to accomplish the end designed by its author, who is an actuary of exceptional and varied talent."

At the time of conceiving the articles it was not planned to reproduce the work as a volume. The demand for this came spontaneously and insistently from field men who had found the series discussed among their clients and helpful to their cause, and from those interested generally in the cause of life insurance, to preserve in this work a current story of the epoch of the life-insurance investigation. Slight modifications have been made in the volume, the better to achieve the purpose of having these serial sketches embody an enduring chronicle of the investigation period.

The book is written in popular style, easily understandable to the layman, to whom it brings home, in telling fashion,

life-insurance truths. The articles are a mine of valuable information — the kind of information and material that the active insurance man needs in his daily work. Sentences, paragraphs and chapters of " The Romance " as it ran as a serial were variously found to attract the attention of every conceivable type of insurance prospect and policyholder.

As a canvassing document, the serial was stated by successful agents to be unrivaled, and it is hoped to give further effect to this feature of " The Romance " by combining the several serial numbers as a connected story.

THE WORLD TO-DAY COMPANY.

"American life insurance will live to bless our people as long as American civilization lasts, and will endure and grow as long as civilized man, while living, takes forethought of the event of death."

— GROVER CLEVELAND.

UNIV. OF CALIFORNIA

The Romance of Life Insurance

CHAPTER I.

LIFE INSURANCE — EVERYBODY'S PROBLEM.

WHAT do you know about life insurance — the institution that most intimately concerns you and your dependents — the moneys variously estimated to comprise the larger part of the estates of all who leave anything behind them?

Hear the words of Lieutenant-Governor Thorne, of Kentucky, before a conference of governors, attorney-generals and insurance commissioners, called at Chicago in February, 1906, to consider the life-insurance situation, and arraign yourself by the breadth of the smile of good fellowship and understanding of this Kentuckian, when he addressed the chairman as follows:

Mr. Chairman, I must say that the gentleman — whom I do not know — told you the truth when he said I did not know a deferred dividend from a bundle of firewood. We people 'way down in Kentucky and in the Southwest don't know anything about insurance at all. There is only one thing we do know — we have to pay our premiums on our insurance policies, *or make our annual contributions to the campaign fund.* We are forced to do that under penalty of our lapse of policies, and some few of us have been insured so long, and imposed on so long, that, like the fellow who had hold of the train, we can not afford to let go now. . . . I was out in the country taking depositions some time ago, at the house of a fellow who was very loud-mouthed about insurance. He had a picture framed and hung on the wall, gotten out by an insurance company (I will not say what company it was for fear of hurting some fellow's feelings). It was a death-bed scene. A man

was lying there with the death-sweat on his brow; his wife was standing over him, wiping off his forehead, and he had a broad grin on his face, and he was saying, "Don't be disturbed — I'm insured in the ——— !" I saw him again the other day, and I said to him, "Uncle John, what have you done with that picture?" He said, "Great God, I've got it turned to the wall." He said, "I don't know whether my policy is any account or not; what do you you think?" I said, "Good as the bank; there is no election for four years."

Genial Governor Thorne expressed in his facetious speech an attitude of insurance ignorance frankly assumed by men in high places, and fashionably followed by the insured and the uninsured alike. What Governor Thorne said of Kentucky is equally true of every other State in the Union. Yet, consider the Kentucky situation alone.

In the year in which that speech was made nearly $3,000,000 was paid in death claims in the State of Kentucky. It may not be possible to verify the estimate that this sum constituted the greater part of the estates left by the citizens of Kentucky who died during that year, but it stands for what it is — $3,000,000, paid in claims of small amount, reaching in its immediate protective circle probably fifteen to twenty thousand Kentuckians, mostly women and children. Beyond this, there was in force in Kentucky two hundred millions of insurance, there was written in that State during the year thirty-five millions of insurance, and unfortunately citizens of that State lapsed during the year thirty millions of insurance. Think of the men, women and children to whom these figures are potent realities, all in the one State, Kentucky, and all concerned in a matter treated so facetiously.

If there is one thing more wonderful than the progress of life insurance in America, it is the complacent ignorance of Americans regarding it. Considering that the incidental features of life insurance science are of compelling interest

wholly aside from the business of protection, this ignorance and apathy are still less understandable.

As the exponent of a practical system of the many sharing the burdens of the few, life insurance has its approach and analogy to communism and socialism — both here in America, where it is exploited through corporations, and abroad, where, in addition to corporate mediums, exist systems of compulsion and paternalism. The clamor of the British proletariat for old-age pensions, the stoical German workman's compulsory insurance, the Australian experiment in government insurance, are incidental features of the life-insurance business representing live public issues of the day.

View its proportions. Twenty-four million policies are in force in the United States and Canada. Assuming that between three and four people are directly interested in the life of each policy, you attain numerically the entire population of the United States and territorial possessions.

That able and agressive generalship has guided the life-insurance business is attested by its success — measured in one way by the payment of five hundred millions of dollars to policyholders and beneficiaries during the year 1907 by American and Canadian companies, and in another way by the record of five billion dollars paid to policyholders and beneficiaries during the fifty years of its existence. That this generalship has not been in all qualities and at all times above reproach is admitted.

To the interest inherent in life insurance have been added the dramatic occurrences on the life-insurance stage of the last three years — the beginning of better things in a country's commercial morals.

Apart from the amusement and entertainment that can be derived in the acquisition of a little life-insurance knowledge, it becomes the obligation of practically all to know

how to make use of life insurance. Should not the independent know how to protect their dependents, and thereby insure their own independence? And the dependent — should they not strive to learn how best to avoid the pauperism from which their dependency is narrowly separated by that uncertain thing — the life of another?

Governor Thorne was right — the people do not know life insurance, as his ready wit portrays — but not even the ready wit of Governor Thorne can patch a defense for ignorance in so important a matter, or for the toleration of impositions that are alleged in spite of confessed ignorance.

A man who seeks commodities, privileges and luxury, in their respective markets, as his need or taste suggests, defers taking life insurance until some agent singles him out, succeeds in getting an interview, and persuades him, from the outside, of his own needs. Most times he does not read the policy when delivered.

Did you ever read your policy? Do you know its terms and privileges, and how to use them — you who study yards of abstracts when you make a small real-estate transaction, and you whose whole family knows every word in the lease of your apartment or of your house? No wonder there is discontent and dissatisfaction among policyholders. No wonder there are misfits in policies. No wonder life insurance is clumsy in its failure to reach and protect thousands and thousands of weak women, weaker children, and weakest aged.

Here are two messages from life insurance to *you:*

Read your policies and learn what they are.

Buy the protection that you need and that your family needs, as you would buy your fuel or your food. The starving and freezing process may follow as certainly the neglect of initiative in the one case as in the other. Who would be

cowardly enough to add, "Maybe so, but not to me personally?"

Vague ideas exist of mysteries in the life-insurance business beyond common ken. There has been reason for this in the past, not wholly accounted for by the apathy of the public and the policyholder. Life-insurance companies discovered that well-organized agencies, persuaded of their cause, could insure the public by buttonhole campaign, without entailing loss of energy through widespread diffusion of life-insurance principles. The agent was told to concentrate. His business was to get the application signed. He soon learned he was paid for this, and not for educational work. The progress of the business justified the acumen of life-insurance management as to volume, but left the vulnerable spot of life-insurance ignorance.

Witness the result. Policyholders frenzied by exposures bad enough in themselves, but exaggerated by scare headlines to ridiculous proportions, have failed to understand and defeat legislation designed to remedy, but which could only inflict evils worse by far than the things these laws would correct.

Life-insurance legislation, therefore, is a problem that affects alike the nation, the State, and the hearth, and is worthy of the intelligent deliberation of legislative bodies and of the people that give them power. The life-insurance legislation that has followed the investigation has been, in many ways, wise and beneficial, and in many other ways childishly restrictive and ridiculously paternal.

The spectacle of the companies of the country being driven out of the great State of Wisconsin through legislation impossible of consistent construction by the men who recommend and enacted it, would be humorous were it not destructive in effect, and disastrous to the people of Wis-

consin, who have given force to these laws by electing the men who perpetrated them. Many of the most economical and most approved companies in the country have reluctantly withdrawn from Wisconsin, depriving the people of that State of the ability to be served by their agents; depriving these agents of a means of livelihood, wherein they did service to the State and nation, as well as to the individual; and depriving the companies of the volume of business which should legitimately come from that great State.

For wise legislation in the future, the companies must depend on what they should have been able to have depended on at all times — publicity and policyholders. The times are ripe now for making publicity effectual in life insurance, by arousing the public to its obligations in having not only honest and wise management of their companies, but honest and wise laws under which these companies can live and thrive.

The functions of life insurance are far-reaching. While the faculty for providing through life insurance a legacy to dependents that saves these dependents from becoming a legacy to orphan asylums and charitable institutions, places life insurance on a plane of usefulness second to no other institution, it does not comprehend the various functions of life insurance.

The business man of to-day has learned, and is learning, the value of protecting his business through life insurance on those supplying capital or brains to the enterprise. In the city of Minneapolis is a great grain and flour enterprise, the Peavey Company. An insurance of $1,000,000 upon the head of this corporation, the late Frank H. Peavey, whose personal prestige and credit were not overrepresented by this sum, proved of great benefit to the company and its credit upon the unexpected death of Mr. Peavey. Only two annual

premiums were paid upon this policy. This is but one case in point. There are many others. Interesting among these is a case where a large estate was tied up in New York city under the conditions of a will that called for the income of the estate to be divided among five people, until the youngest reached twenty-five years of age, when it was to revert to certain legatees. These legatees secured the immediate settlement of the estate by having a life-insurance company assume for a proper premium the paying of this income under the terms of the will.

Far-reaching, indeed, is the arm of life insurance, and the need of knowing how to make it serve.

One company alone in America has in its membership one-tenth of the entire population of the United States. The work of this one company makes life insurance a national problem. It has more policyholders than the combined population of twenty-four of the States and territories of the fifty-two forming the American union, exceeding the combined population of Greater New York, Chicago, Philadelphia, Boston, St. Louis, Cleveland, Cincinnati and Minneapolis.

There is another company in the country whose assets amount at this time to more than one-half the national banking capital of the United States. These are but few of many.

Truly there have been makers of life insurance, as there have been breakers of life insurance, and those both makers and breakers. The story of the makers is a story of unexcelled achievement. The tale of the breakers chronicles at the same time a moral awakening. The tragedy of those who were both makers and breakers brings out the eternal verity that no man can serve two masters.

Then there's the erstwhile yellow dog, ugly in its yellow-

ness, perhaps faithful to its purpose, but withal a cur. The history of the yellow dog goes back to the yellowest cur of all — the strike legislator that whistled it into being — and concludes with the judgment of saffron-hued legislation that has marked its obsequies.

What about the campaign funds, to which Governor Thorne alluded so humorously? The yellow dog again — this time as guardian of billions of dollars value, pitifully raising its contemptible bark in answer to the free-silver cry. The yellow dog is dead. No more will it thrive where it could only ineffectually guard, and grateful memory must record in its death a stampede among its fellows that has improved the morals of a nation.

The ideal in life-insurance management and control is no less difficult to attain and preserve than the ideal in any other business in America. That the public expects more of life insurance is in itself complimentary to the cause, and that life insurance more nearly approaches the ideal than any other business interest in America is to-day a growing belief.

It becomes the portion of the public to recognize the tremendous importance of life insurance — as an economic factor, and as a financial power, as well as its usefulness for protection against the vicissitudes of uncertain death and needy age.

It would be difficult to exaggerate the many ways in which insurance may command the interest of the American people. American life insurance should be to-day one of the greatest boasts of Americans. In the words of Grover Cleveland, "American life insurance will live to bless our people as long as American civilization lasts, and will endure and grow as long as civilized man, while living, takes forethought of the event of death."

CHAPTER II.

THE LIFE-INSURANCE INVESTIGATION.

As a volume designed to record the era introduced by the life-insurance investigation, it appears advisable to include a chapter not included in the original serial story, in order to embody a brief description of the appointment, the personnel and the scope of the Armstrong Investigation Committee.

This brief chapter on "The Life-insurance Investigation" has been prepared to chronicle for fading memory events, dates and purposes of the New York legislative investigation of life insurance in 1905.

THE Armstrong Legislative Investigation Committee was appointed concurrent to a resolution adopted jointly by the Senate and Assembly of the State of New York, July 20, 1905. The resolution sets forth the reasons for the appointment of the committee and the general scope and plan of the investigation. It was in full as follows:

WHEREAS, It appears from a preliminary report of the State Superintendent of Insurance on the Equitable Life Assurance Society of New York that the interests of policyholders and their beneficiaries in life-insurance companies doing business in the State of New York are not properly safeguarded by existing laws, and that a revision of the insurance laws of the State should be undertaken; and,

WHEREAS, The inquisitorial powers of the Superintendent of Insurance are limited to the examination of the officers and agents of the companies and their books with reference to their business, and with a view to their solvency chiefly, and it is expedient that as a basis for legislation the operations of such life-insurance companies should be investigated as fully and as promptly as may be;

Resolved, If the Assembly concur, that a joint committee be appointed, consisting of three members of the Senate and five mem-

bers of the Assembly, which committee shall, after adjournment of the extraordinary session, proceed to investigate and examine into the business and affairs of life-insurance companies doing business in the State of New York, with reference to the investments of said companies, the relation of the officers thereof to such investments, the relation of such companies to subsidiary corporations, the government and control of said companies, the contractual relations of said companies to their policyholders, the cost of life insurance, the expenses of said companies and any other phase of the life-insurance business deemed by the committee to be proper, for the purpose of drafting and reporting to the next session of the Legislature such a revision of the laws regulating and relating to life insurance in this state as said committee may deem proper.

Further resolved, That the said committee be and it hereby is authorized and empowered to require and enforce the attendance of witnesses, and the production of books and papers, to administer oaths, and to employ counsel, stenographers, clerks and such other employees as may be necessary for the purposes of the investigation. And a sum not exceeding fifty thousand dollars ($50,000) is hereby appropriated out of any moneys in the treasury, not otherwise appropriated, for the purposes of said committee.

Pursuant to this resolution three members of the Senate and five members of the Assembly were appointed as a committee, with Senator William W. Armstrong as chairman of the committee, and Assemblyman Ezra P. Prentice, secretary. The other members of the committee were: Senators William J. Tully, Daniel J. Riordan, and Assemblymen Robert Lynn Cox, James T. Rogers, William W. Wemple, John McKeown. The committee was assisted by Charles E. Hughes and James McKeen as counsel, and Matthew C. Fleming as assistant counsel, Miles M. Dawson as consulting actuary, and Marvin Scudder as financial statistician.

The committee organized on August 1, 1905, and began its public hearings on September 6, 1905, continuing consecutively for fifty-seven sessions, the concluding session being held on the 30th of December, 1905.

In opening the public hearings Chairman Armstrong outlined the position of the committee in the matter of counsel, which, for purposes of preserving a record of the investigation, constitutes an important supplement to the original resolution. Mr. Armstrong said:

> Mr. McKeen and Mr. Hughes, with Mr. Fleming as an assistant, are here upon behalf of the committee.
>
> Now, the committee desires to know who, of the companies interested, are represented by counsel, and would be glad to have their presence noted, not as conferring formal rights, which an appearance would ordinarily confer, because the committee's time is too limited to permit of more than the proper courtesy as we go along.
>
> We will for the present assume, if I may speak frankly, that counsel who are here, other than our own counsel, have no rights, but are entitled to every courtesy and the committee will endeavor to show them every courtesy that is compatible with the performance of our duties, within the time that we have to perform them in.
>
> We desire, however, to know who are here by authority, representing any of the interested companies or parties, and would be glad to note the appearance of those.

This attitude on the part of the Armstrong Committee was necessitated by the limitations of time within which the committee must labor in endeavor to cover an immense field of operation. At the time of the hearings, and even for months afterward, the public was misled by the sensational press into misunderstanding the purposes and operation of the Armstrong Committee. The functions of the committee as a body probing only for abuses and methods susceptible to abuse is yet misunderstood to have been more or less of a trial of life insurance. Had life insurance been on trial it would have been in position to offer in rebuttal something of its constructive work, which would have minimized the evils and abuses of the time to a point that would have robbed the

Armstrong Committee of much of its power for good. There was no misunderstanding of the purpose of the committee on the part of the companies, as shown by the reply of ex-Governor Black to Senator Armstrong's opening comment. Mr. Black spoke for all life insurance when he said:

Mr. Chairman, I appear, so far as an appearance is permitted or proper, for the Equitable Society.

I am not here to interpose any defense or consume the time of the committee, but I desire to say at the outset, that so far as I can, representing the Equitable Society here, and so far as the Equitable Sociey can, with any information or documents in its possession, we shall aid the work of the committee and the counsel for the committee in every way.

It may be desirable, and if it is, in my judgment and in the judgment of my client, I hope it will be permitted later on possibly to offer some explanation, as the testimony proceeds and as the investigation grows older and the necessities of the situation disclose themselves. That is all, your honor, which I have any desire to say.

One more comment is all that is necessary to complete this chronological record of the purposes and method of operation of the Armstrong Committee. It is this: that the request of Mr. Black that the companies might be permitted to introduce explanations as the testimony proceeded was not granted. Possibly there was much of wisdom in this, as the Armstrong Committee planned the investigation, but it proved disastrous for the time being to life insurance, because of the misrepresentation of the functions of the Armstrong Committee by the popular press in detailing the testimony.

UNIV. OF
CALIFORNIA

UNIV. OF
CALIFORNIA

Copyright, 1906, by Underwood & Underwood.

GROVER CLEVELAND.

Grover Cleveland,
Pacifier of the Equitable turmoil.

CHAPTER III.

THE AFTERMATH OF THE INVESTIGATION.

TO quote from Josh Billings: "'Tis better not to know so much, than to know so much that ain't so." If life-insurance truths have not been widely disseminated and assimilated, life-insurance untruths have. Lack of knowledge as to what is so about life insurance has been offset by excess information coined and circulated by a sensational press as to what is not so. It is a case, therefore, of knowing both too little and too much at the same time.

The era of insurance notoriety, dating from the internal troubles of the Equitable Life Assurance Society, marked an epoch of sensational assault upon the business, and saw the onslaught of a horde of hungry politicians, whose ignorance of life insurance and regard for the welfare of their fellow man did not deter from attempts to make political capital out of the situation.

"Truth crushed to earth will rise again," but in the affairs of the American people it is not wise to attempt the resurrection of truth before the public accepts the introductory fact that truth *was* crushed.

Preparatory to telling the constructive story of life insurance, it is necessary to unravel the web of misapprehension, misunderstanding and misrepresentation of life insurance spun during the period of life-insurance disclosures, actual, alleged, and so-called. Unfortunately, therefore, it is necessary to begin at the last volume of the story.

Admittedly there were evils and abuses in life insurance

— possibly fewer than in any other enterprise or institution of similar magnitude. This, however, does not alter the fact that there were evils, grave evils, and that evils are evils wherever found. Probing for these evils with relentless tenacity constituted the entire work of the now famous Armstrong Investigating Committee and its able counsel, Charles E. Hughes, commissioned for this purpose by the Legislature of New York.

The legislative investigation was not a judicial hearing of the merits and demerits of life insurance, for life insurance was not on trial. Yet this is exactly the view the public press fostered from the commencement of the public hearings. With this idea in the popular mind, it was unfortunate that the time of the investigation and the purposes for which it was organized did not permit of some evidence of the tremendous constructive work done by many of the men and institutions severely criticized.

Tritely expressed, "the way to avoid criticism is to say nothing, to do nothing, and to be nothing." The development of life insurance to the state of usefulness it was then enjoying called for continual activities from the institutions that had developed it and from the human units that made those institutions what they were.

Consider the unexampled frankness of John A. McCall upon the witness stand. McCall went on that stand without counsel, as did all other life-insurance witnesses, with a record of success as a superintendent of insurance and as a builder of a life-insurance company — a record that ranked second to none, either in insurance supervision or in constructive life-insurance work. He appreciated the character of the Armstrong investigation, the limits of its time, the fact that it was not there to applaud his achievements in constructive life insurance, but was there to criticize errors

that had been made by him and under his supervision, which he told of, unsparingly.

At this day, listening to the name of John A. McCall reverently spoken by the public at large, by the press that assailed him, by the supervising State officials whose duty called for criticism, by his sometime rivals, it seems a strange commentary upon the investigation that during its continuance the sensational press should have swayed the public mind to see nothing but the mistakes made by this man whose judgment was daily deciding problems involving millions of dollars and, to large extent, the happiness of thousands of homes.

The case of McCall is quoted as a gage of public frenzy. That this illustration be not misunderstood as either a toleration of the errors McCall admitted or for a defense in general of all who appeared upon the stand, another example must be introduced.

Enter the McCurdys. Richard A. McCurdy to the stand, executive at a salary fifty per cent greater than that of McCall. The company that he represented was a great institution, but its greatness was founded upon the wonderful work of Winston, whose name endures in life-insurance history, and continued by the man now vice-president and actuary of the company, whose position in the scientific world is unassailed and unassailable. In connection with this distinguished actuary worked another master builder, the company's present second vice-president and agency manager.

"You must ask the actuary about that," was Richard A. McCurdy's usual reply when he varied his "I don't know."

When the younger McCurdy said on the stand that he "didn't know," he accurately described the situation for the most part. Skeptics not inclined to be entirely charitable

will challenge this statement as it applied to the enormous salaries being paid, directly and in commissions, to relatives who, like the gentleman himself, were not indispensable to the institution they represented. When the probe of the investigation went into the weak spots of the McCurdys, in the judgment of many insurance men it covered them all over.

This statement stands unchallenged: the investigation was not a trial of life insurance as an institution, or of any life-insurance company as part of the great life-insurance body, and so far as these institutions were concerned not one iota of their monumental service to the public crept into the procedure of the Armstrong Committee.

Without representation by counsel, without right to amplify answers, the work of the most fairminded investigator must elicit responses from witnesses that produce misconceptions. To quote from Governor Hughes in a recent speech:

> We have had an investigation, but it was one in the interest of life insurance, and not against it. . . . . Then, we wanted to secure in actual practice the carrying out the theory of corporate organization, that things should be done openly and with the consideration of those entrusted with the powers and obligations of directors, and that the measures that should be taken should be considered by those who, under the forms of the law, were required to consider them, and that, however skilful might be the management, however astute might be the leadership, those having these great powers should be shielded from the temptation to deal with matter which would not permit a vote of the directors in their confirmation.

With the true character and purposes of the life-insurance investigation in mind, with the aim of the politicians — of whom preëminently Charles E. Hughes was not one, then or now — to get as much glory as possible out of

the insurance turmoil, and with the evidence of yellow journalism's historic sheets as to how the Armstrong evidence was mistated and distorted to make sensational stories, it is well for fuller understanding, to return to the beginning of the insurance agitation, and therefore to the Equitable Life Assurance Society.

To begin with the society is to begin with Henry B. Hyde. Henry B. Hyde in 1859 was a young man full of initiative, struggling to keep a cash-book in the cashier's department of the Mutual Life of New York. About this time the Mutual Life conceived the plan of starting the Washington Life Insurance Company, to do a general life-insurance business, and incidentally to carry the excess lines that the Mutual should turn over to it. Young Hyde, exasperated by the difficulties of making his cash balance, and feeling destined for greater things, determined to start a third company. In confidential capacity to President Winston, he knew intimately of the purposes of the new company, and expected that President Winston would welcome his initiative. Instead he was informed that if he wished to start a company he would have to sever immediately his connection with the Mutual. This he did, and so indomitable was his energy and ability that the Equitable Life Assurance Society was founded by himself and started in active operation some six months before the Washington Life formally commenced business.

Hyde's energy was unbounded, and his endurance remarkable. There was little to attract investors to put up life-insurance capital, because of limitations of earnings, but Hyde succeeded in doing this, as well as in putting a large volume of business on the books, much of which he wrote personally. It was his great ambition to make the Equitable the biggest life-insurance company, and then the best. He

did not appear to conceive at first the possibilities of achieving these two laudable purposes concurrently, or perhaps he preferred not to see it; or, as a third possibility, he may have thought the ultimate and larger interest would be best conserved by not seeing it. Thus began the race for size. In this race Henry B. Hyde found his greatest motive power in deferred or tontine dividends. Keen and masterful as he was, it would appear he did not at first see the possibilities for financial dominance the tontine principle gave, and which later brought discredit on the business.

Theoretically the tontine idea is that dividends be deferred some definite period, usually twenty years, from the date of the policy, and then be divided among all survivors who have continued their insurance until that time. The result of this is to increase greatly the dividends by interest earnings thereon within the twenty-year period, and at the same time increase further their individual size by dividing only among the persisting survivors.

The arguments advanced for the sale of deferred dividends by Henry B. Hyde, which are tenable in themselves, are that the dividend earnings should logically go to reduce the cost of insurance to those who persist. Thus he argued that the policies of those who died benefited from the premiums of the persisting members, and that those who lapsed were not entitled to dividend participation, thus returning to the point that the dividends should most properly be paid to survivors. In these contentions, which at the time did not entail the abuse which followed from the vast accumulation of unaccounted deferred dividend wealth, Mr. Hyde and his company were bitterly opposed by all the other companies, notably his former employers, the Mutual Life of New York.

The Mutual Life, the New York Life and the North-

western Mutual time and again assailed the tontine principle in bitter attack, only to adopt it later as they realized that Hyde had developed popularity for this form of insurance and was enabled by means of the large funds it left for the time being unaccounted and at his disposal to push actively for new business.

The race was on — the race for size — and these companies found their only hope to keep pace with Hyde and the Equitable was to develop the deferred dividend principle with its possibilities for extravagance in pursuit of volume.

Did all companies adopt the deferred dividend principle, and were all alike struggling by every means for volume? No. The deferred dividend principle was attacked more vigorously from the inside than from without. Many companies never adopted it, although it continued its popularity before the public until the time of the investigation.

Know and remember that the abuses brought out in the investigation were almost exclusively concerned with the dividend feature of life insurance. No old-line company had defaulted a dollar in contract obligations; its legal liabilities were sacredly recognized. Deferred dividend funds were not then legally liabilities, and only in the nonaccountability of these funds and the lessening dividend did the abuses come home to the policyholder. Life insurance as an institution was only incidentally involved, as dividends must ever remain incidental and subordinated to the real business of insurance protection.

The incidental character of dividends was developed to the amusement of a number of men in a prominent club, at the time of the investigation. One of the club members accosted a life-insurance general agent with the statement that he needed insurance protection, and wanted to take out a large policy. The agent immediately began talking life

insurance to him, but found that the man reverted continually from his original proposition to the subject of dividends. Finally the agent said, "Here, man, I'm offering you a horse, and you are trying to buy a harness!" The truth of this carried conviction to both policy buyer and listeners.

The very word "dividend" is a misnomer, as any thoughtful man will see upon reflection. The business of mutual life insurance is to furnish protection in whatever form the applicant prefers to have it, and *at cost.*

Life insurance is the only thing the public can get at cost.

It is imperative that a rate be charged for insurance in a mutual life-insurance company that will make certain, with proper management, the discharge of the sacred obligation involved in life-insurance contracts. Where this premium proves to be above actual necessity, above actual cost, it is returned to the policyholder under the name of dividend.

In the struggle for volume, commissions increased in size, and the pressure for production introduced into life insurance the insidious rebate.

The rebate was a peculiar practice in itself. It appeared in many forms, and under many guises, with dire results to life insurance. Under the leadership of the big companies, the agents for many of the small corporations met rebate competition with rebates of equal or larger size, necessitating large brokerages, or high first commissions.

Thus life insurance spread and grew. Higher first commissions paid during this period only partly went to the agent, the balance finding its way back in rebates to the purchaser of the insurance. This, of course, brought about inequities, as many a man received his policy practically without cost the first year, while others were paying their premiums in whole or in larger part.

With the death of Henry B. Hyde, who remained an inspiration to his agents and an enormous personal producer of insurance to the very end of his lifetime, the struggle for supremacy went on unabated, principally between Gage E. Tarbell, upon whom the agency mantle of Hyde descended, and George W. Perkins, the aggressive agency manager of the New York Life. These two men had been keen rivals for leadership since 1892, when both had come from Chicago to the home office of their respective companies as agency officers. It thus fell to Tarbell's lot to keep the Equitable to the front. This was a herculean task, as the other big companies had also capable leaders and able departmental heads lending loyal support to their respective chiefs, whereas he suffered in the frivolous presence of the younger Hyde, James Hazen Hyde, as vice-president of the organization.

Tarbell was a masterful and ambitious man; he felt keenly the handicap of Hyde and resented his seniority in office. The then president of his company, James W. Alexander, now out of life insurance, had obligations of grateful association with the elder Hyde, and of guardianship to the younger, which tied his hands.

Young Hyde had the advantage of owning the control of the capital stock of the company. He assumed much authority in the high office to which his father had elevated him without regard to his lack of qualification. In the financial management of the company Hyde permitted himself to be unduly influenced by certain high financiers in the directorate.

Thus the weak spots in life insurance were high pressure for business on the one hand, and high finance on the other.

On January 31, 1905, young Hyde gave his now famous French ball. It takes a little more than ordinary genius to startle New York society, and the fact that this ball so

thoroughly startled it attests that young Hyde was not lacking in the family genius, even though he chose to misapply it. This garish festival was blatantly vulgarized by the press.

Tarbell was quick to see in this ball the possibilities of bringing about the desired elimination of James Hazen Hyde from the Equitable Life. He prepared a "round robin," signed by nearly all the officers of the company, from President Alexander down, and by the heads of the departments, calling upon Mr. Hyde to resign. Tarbell went into the annual meeting in February with this petition, feeling that it could not be denied by the directors of the society when it was signed by men who owed their living to the company. In this he reckoned without the "high financiers" of the directorate, who did not propose to lose the grip upon the Equitable which they had made serviceable through Mr. Hyde and the "James H. Hyde and Associates" syndicates which Mr. Hyde was wont to form for investing Equitable money. The result of this meeting was turmoil. Hyde, supported by E. H. Harriman and his financial coterie, refused to resign. Tarbell took up the challenge to battle, and the war was on.

High Pressure and *High Finance* were now engaged in self-eliminating strife in the personalities of Gage E. Tarbell and James Hazen Hyde. The different factions of prominent financiers represented in the directorate of the Equitable added fuel to the flame in attempts to further their personal and conflicting ambitions.

After months of struggle, with charges and counter-charges bandied freely back and forth; after the practical disruption of the board of directors of the Equitable in attempt by each faction to solve the problem by the elimination of the opposing side; after the situation had been

accentuated by the press and the warring factions until the public became thoroughly alarmed, and serious consequences threatened, the internecine strife was ended by Hyde selling his majority interest in the capital stock of the Equitable to Thomas F. Ryan for $2,500,000 and withdrawing from the company.

Mr. Ryan immediately trusteed the stock in the hands of Grover Cleveland, Morgan J. O'Brien, and George Westinghouse. Here is Mr. Ryan's testimony before the Armstrong Committee upon the purchase:

My first idea was to get together a number of policyholders who would take this company out of the hands in which it was going to destruction and give it a clean management, economical and efficient, and restore it to its prosperity for the benefit of all honest interests. I soon concluded that the amounts that could be obtained from disinterested people—people who had no axes to grind—would be very small, so I concluded to do it myself. And buying the stock I determined never to exercise the voting power for the purpose of electing directors of the company or for any other purpose, and I would select trustees of such high character that their motives could not be questioned. I accordingly instructed my counsel to draw a deed or transfer of that power as strong as it could be made under the present law.

As a matter of exceeding interest and news to many, this deed of trust is renewable at the option of the trustees alone, and is as nearly perpetual as is possible under the laws of New York.

Paul Morton was elected chairman of the board of the Equitable, and afterward president. Mr. Ryan was not the original suggester of Mr. Morton for the chairmanship, although, as he put it recently, "he wished he could claim that honor." Mr. David H. Moffatt, president of the First National Bank, of Denver, who had long known Mr. Morton, suggested his name to his fellow directors on the Equitable board as the most capable executive available.

Inasmuch as succeeding financial flurries and depressions can be traced to the disturbance of affairs beginning with the investigation of the Equitable Life, in that much is Ryan's statement of his self-interest in protecting his other investments proven. More than this, Mr. Ryan has offered to sell back his interests to the society for what he paid for it, and four per cent interest upon the same. This offer stands to date.

Briefly, this is the story of the squabble which brought about the legislative investigation, and in doing so has done much for life insurance in eliminating the parasites from the home office and the field, and the self-serving directors from the directorates. And the present home-office managements welcome the change, and fought for it.

So much for High Finance. Now for High Pressure.

First commissions and bonuses had gone high, and general agents were borrowing against their renewal commissions, obtaining what is called agency advances. These practices had led, as shown, to rebating, and to the purchase of business at excessive cost, and to incidental extravagances.

And right here it should be injected that it remains for some future economist to pass upon the economic features of large commissions and advances, and the struggle for enormous size now to be suddenly ended. This struggle and stress had undoubtedly popularized life insurance and had spread its benefits, even at excessive cost, broadcast through the land. The future economist will have to decide whether the years of slower advancement at a lower cost, without the impetus given by the deferred dividend system, would have served the larger economy of the American people, when it is considered that it must have omitted countless thousands from insurance benefactions.

As is usually the case with American legislation, in

attempting statutory correction of life-insurance abuses, the pendulum has swung too far the other way.

It did not need either a prophet or an economist to characterize the extreme restrictions which the first New York reform laws put upon agency expense and agency commissions as detrimental to the best interests of the American people, unjust to the trained agency man struggling for livelihood in his most honorable profession, and disastrous to the agency organization of which he is a unit. That this fact has not yet fully developed is due to reasons succinctly set forth by William C. Johnson, who represented life insurance in an attempt to loosen the present restrictions on agency activity. Mr. Johnson succeeded in having such an amendment passed unanimously by the Assembly, and with but one opposing vote in the Senate, only to be vetoed by Governor Hughes, after the Governor had given a hearing in which every one who appeared was in favor of the bill. Mr. Johnson comments:

> The present standard (of compensation for agents) is insufficient, viewing the needs of all companies, in all sections, and had it not been for the existence, when it took effect, of organizations of agents who had already been procured and trained, and who were tied to the business under renewal contracts with their companies, the inadequacy of Section 97 would have been appallingly apparent before this. The fact that many agents are being supported by renewals on old business has served to postpone a realization of its blighting effect, and to make its operation toward disintegration gradual rather than immediate, but for that reason even the more dangerous because not so clearly discerned by the inexpert.

Of the special features brought out in the investigation, beyond the nepotism of some families in control, happily eliminated, and the minor extravagances, the most prominent involved matters of dividend accounting, and syndicates and joint accounts and methods of investment.

While attempting to fix the investigation and the turmoil in life insurance properly in mind, it is well in passing to state that the syndicates and joint accounts, rightly eliminated by laws since enacted, because at times iniquitously abused for personal avarice and ambition, have not operated to the cost of the policyholder, when considered as a whole. It may be a surprise, too, to the public to know that the so-much-heralded campaign contribution reduces to insignificant figures, averaging for the company chiefly blamed in this respect since 1896, the date of the free-silver campaign, less than one quarter of a mill on each dollar of premiums paid during the twelve presidential years covered by the three donations of 1896, 1900 and 1904.

The conclusion which the insurance investigation forces on any thoughtful mind is the innate soundness of life insurance. In contrast the best banks are feeble.

During the money panic of the fall of 1907, the very laws of the State and nation were waived aside that the banks be not embarrassed by the rightful demand of depositors for their money. This sentiment of refusing money to depositors with checking accounts in banking institutions was supported by the sound judgment of the American people, and justified by the same sensational press that had found so much to condemn in life insurance.

The probe into life insurance was a probe at the same time into the weak points of a country's commercial morals. It is fortunate for the country that it was life insurance that was put to the test. No other financial institution in American affairs could have withstood investigation of this iconoclastic character. The rebate, the yellow dog, the campaign fund, the manipulation of high finance, had relatively their minimum of evil existence in life-insurance circles.

When there is so much about the constructive work of

life insurance to tell — how to use it, and how to make it useful — the space used in the rehearsing of this insurance investigation is begrudged, except in the sense that it chronicles an epoch-marking period in life-insurance affairs and prepares the way for telling the great constructive story — the story of how life insurance can serve you.

CHAPTER IV.

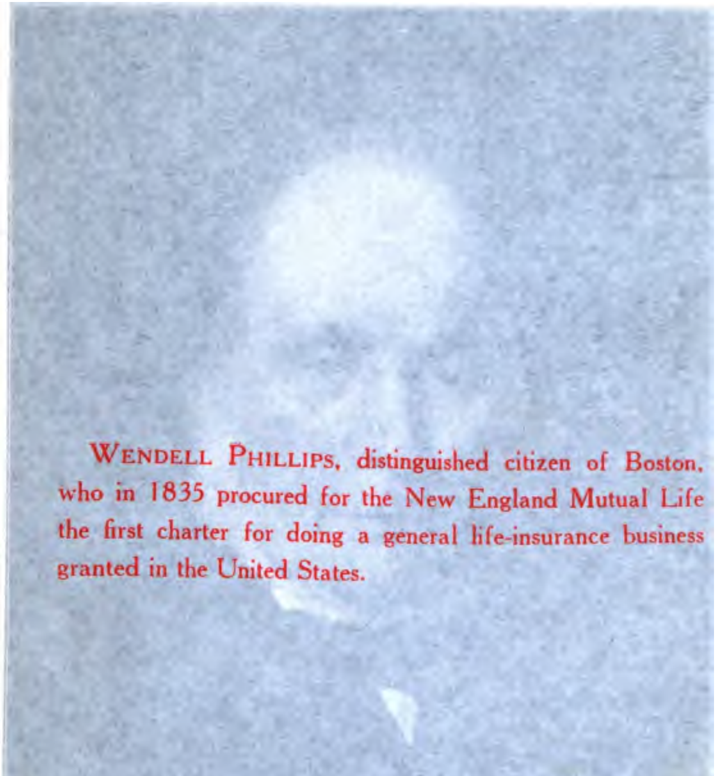
THE EVOLUTION OF THE POLICY.

THE story of the evolution of the policy as usually told runs back into antiquity. Many will recall the famous analogy which Dr. Talmage drew between life insurance and the biblical episode of Joseph, anticipating in the seven years of plenty the needs of seven succeeding years of famine. Other oracular authorities, fixing on the coöperative principle of life insurance, have pointed out its ancient parallels in the communistic care of its own, of the tribe, the band, the horde and the clan. No end of similar illustrations might be instanced. All life insurance reduces to the one element — protection — and beyond doubt this element has been present in the heart of man for his own and for himself so far as the history of man is traceable.

It is doubtful if these researches, well intentioned to surround life insurance with a lofty mist of idealism and a vaporous incense of orthodoxy, are as beneficial to the public as the less sententious efforts of the analytical historian to dissipate the fog gratuitously surrounding life insurance, and leave it bare as truth itself.

Life insurance is a business, and not a philanthropy. As an equalizer it accomplishes what philanthropy has ever failed to achieve, the beneficence without the sting, and as a distributor of wealth it takes from philanthropy much of its excuse for existence.

As a business, life insurance had an unsavory beginning. Without mortality tables or mathematical principles for



Wendell Phillips, distinguished citizen of Boston, who in 1835 procured for the New England Mutual Life the first charter for doing a general life-insurance business granted in the United States.

UNIV. OF
CALIFORNIA

WENDELL PHILLIPS.

UNIV. OF
CALIFORNIA

basis, the earliest insurance upon lives was indefensible gambling. Hazards introduced by death were classed with hazards or risk brought about in any other way. Speaking of those early days in insurance, one hundred and fifty years ago, a high British authority said:

> We should simply subject ourselves to the charge of romancing if we were, thus early, to rend aside the veil of a century and assert the existence of companies for insuring against housebreakers and highwaymen — *against* lying, or death by drinking Geneva! Yet the climax of that period — the era of the South Sea bubble — was only reached by a scheme in "Change-alley for the insurance of female chastity, and another against divorces." A little later these outrages degenerated into "little goes" and "insurance wagers." Then, as a popular writer has observed, any public event would do for a venture. Wilkes in the Tower, Lord North in disgrace with the people, were scheduled in broker's books as good subjects. Successes or disasters in war, the seals of a prime minister, or the life of a highwayman — all served the purpose of the policy-mongers, if by them they "put money in their purse." Large sums were paid by the underwriters at Lloyd's, who speculated upon the failure of a young fellow who had undertaken, for a wager, to go to Lapland and bring back within a given time two reindeer and two Lapland females — and did it!

The picturesque operations of the London Lloyds of to-day are in instances not greatly unlike the reference in the last paragraph, although, of course, the transactions now undertaken by Lloyds are, for business reasons alone, of greatly improved moral tone. Lloyd's operations are worthy of brief description, especially since the interest in this unique organization seems to exceed the amount of current information.

Edward Lloyd kept a coffee-house in Tower street, London, and it is his name that has been adopted to characterize the peculiar business of this organization, though it appears Lloyd at no time was a participant in the various

underwriting schemes that originated in his tavern. The taverns of those seventeenth-century days were patronized by business men as meeting-places. Lloyd's place became particularly popular with owners of vessels and shippers of goods, as a mart at which they could offer risks to ship a cargo and obtain underwriters willing to assume the risk for stipulated payments. It is related that the place also achieved vogue as an auction house for ships.

The underwriters who frequented Lloyd's were not bound together by any organization until the year 1775, after Lloyd had long been dead, but the organization was perpetuated under his name, and took up permanent quarters in the Royal Exchange.

While life insurance has evolved into a science approaching mathematical exactness, operating to eliminate the uncertain hazard of the individual by associating it with the certain average of the group, and therefore the exact antithesis of gambling, Lloyd's remains an underwriter of queer risks with large speculative elements, where the rates must continue to be a product of guesswork. Marine insurance, which it chiefly covers, can not, in the absence of reliable risk tables, be rated like life insurance on mathematical principles.

Lloyd's brokers have issued insurance contracts on the lives of most, if not all, the monarchs of Europe since the time of Napoleon, to indemnify those whose interest would be affected one way or the other by the death of the rulers insured. In this respect Lloyd's may appear to invade the field of life insurance, which, however, is not the case, as life insurance is only issued upon evidence of insurability and insurable interest not possible to establish in the class of insurance underwritten at the London Lloyds.

The early days in insurance were truly gambling days, as

characterized in the following excerpt from the London *Chronicle* of 1768:

> The introduction and amazing progress of illicit gaming at Lloyd's Coffee-house is, among others, a powerful and very melancholy proof of the degeneracy of the time. Though gaming in any degree is perverting the original and useful design of that coffee-house, it may in some measure be excusable to speculate on the following subjects: Mr. Wilkes being elected member for London; which was done from 5 to 50 guineas per cent; Mr. Wilkes being elected member for Middlesex, from 20 to 70 guineas per cent; Alderman Bond's life for one year, now doing at 7 per cent; on Sir J. H. (mark the modesty!) being turned out in one year, now doing at 12 guineas per cent; on John Wilkes' life for one year, now doing at 5 per cent (N. B. Warranted to remain in prison for that period); on a declaration of war with France or Spain in one year, 8 guineas per cent. But, when policies come to be opened on two of the first peers in Britain losing their heads at 10s. 6d. per cent, or on the dissolution of the present parliament within one year at 5 guineas per cent, which are now actually doing, and underwritten chiefly by Scotsmen, at the above coffee-house, it is surely high time to interfere.

This gambling spirit was finally crushed by the gambling act passed during the reign of George the Third, which enacted that an insurable interest must be present in all insurance upon lives.

The real beginning of scientific life insurance dates from the formation of the Equitable Society in London in 1762. This company is the one familiarly termed the "Old Equitable" and is not to be confused with the Equitable Life Assurance Society founded in America a century later by Henry B. Hyde.

In the absence of trustworthy mortality tables, gross miscalculations were made at first in fixing premium rates. The Old Equitable owes its survival to the fact that its errors balanced on the safe side. The "Insurance Guide and Hand

Book" shows annuity rates now quoted at fifteen thousand pounds to have been offered in those days for six hundred and seventy-five pounds. Though annuities antedate life insurance, it appears that the Old Equitable's business was so distributed that it had more than a corresponding offset to the inadequacy of annuity rates in the premiums fixed for life insurance, which were fully fifty per cent in excess of necessity. A premium of five per cent of the sum insured was required on lives between the ages of twelve and forty-five. This was at the excessive premium rate of fifty dollars a thousand for one year's insurance.

The Old Equitable had for its actuary a scholarly mathematician named Morgan, working in association with his father-in-law, Dr. Price, who compiled from the vital statistics of the town of Northampton the now famous Northampton Mortality Table. Dr. Price later produced a second mortality table in 1783, which was promptly utilized by the Equitable and is at the present time a standard in the courts of New York and certain other States for fixing values involving impaired lives, annuity interest, dowers and similar contingencies.

With the mortality tables and information deduced from Dr. Price's investigations, the Old Equitable prepared rates and fathered the great business of scientific life insurance, adopting with readiness all that science could uncover in those days, to advance both the theory and practice of life insurance in the United Kingdom.

Naturally, the company produced imitators. Many of the imitators were short-lived, while others persisted, adopted modern soliciting methods, and outstripped the originator.

The Old Equitable has performed two heroic services for life insurance: first, the adoption and advocacy of scientific insurance principles that in the continuance of this institu-

tion bespeak the inherent soundness of correct life insurance; secondly, by its petty proportions resultant upon its refusal to employ agents, the company serves to emphasize the need of the well-trained and properly compensated solicitor for successful propagation of life insurance. Without the agent the Equitable, with its long and honorable history, has been able to serve but a small portion of the public, having on its books to-day but $12,500,000 insurance as its total volume in force. With an average issue of less than six hundred policies during the last several years the company in 1907 insured only 262 new risks.

The spread of life insurance throughout the civilized world naturally followed its successful operation in England. The enormous proportions of life insurance in America is not the result of early transplantation of the insurance idea, but of its healthier and more energetic growth when once introduced. The oldest life-insurance company in America is the Presbyterian Ministers' Fund, founded in 1759. This corporation has for the greater part of its existence been but a small body, limited to insuring ministers, mostly of the Presbyterian faith, and is not usually classed with the companies doing a general life-insurance business.

The first life-insurance company to begin general life-insurance operations in America was the Mutual Life Insurance Company of New York, which commenced business February 1, 1843.

Willard Phillips, of Boston, had, prior to this time, obtained a charter — the first life-insurance charter — for the New England Mutual Life Insurance Company, under date of April 1, 1835. Owing to the hard times of 1836 and subsequent years, Mr. Phillips did not perfect the organization or begin business until April 1, 1843.

The New York Life was chartered as a marine, inland

navigation, transportation and fire insurance company, on May 21, 1841, under the name "Nautilus Insurance Company." The company changed its name in 1842 to the New York Mutual Insurance Company, obtaining a new charter granting the privilege to do a life-insurance business. From April 17, 1845, the New York Life limited its business entirely to life insurance.

State supervision was not in vogue at that time, and indeed not contemplated. There were no accepted standards of life insurance, nor had the present net-valuation or legal-reserve system been thought of, either in America or England. Consequently the status of life insurance was not fixed either as to breadth or scope or limit of solvency.

The New York Life issued its first life-insurance policy in connection with two fire-insurance contracts granted by the company. Another interesting case illustrating the experimental trend in life insurance and its uncertain scope, is the insurance on the lives of seven hundred coolies under one policy issued by the New England Mutual to indemnify the shipper in event of the death of the coolies in passage from China to Panama, at the rate of fifteen dollars a coolie. The policy as afterward written changed this amount to fourteen and seven-twelfths dollars each, in order to include seven hundred and twenty coolies, without increasing the total amount at risk. This unique contract recited that the risk would continue until twenty-four hours after the ship Sea Witch had successfully completed the journey from China and was safely moored at Panama.

The Manhattan Life Insurance Company, one of the several companies which had in the meantime commenced business, also carried a similar risk on these coolies during the same voyage.

Without the light of experience to guide American

experimenters in life insurance, the policy was restricted in every conceivable way. It became absolutely forfeited in event of nonpayment of premium on the date when due, and otherwise bears but slight resemblance to the modern life-insurance policy. The first policy issued by the New England Mutual Life provided for an addition to the premium rate in event the insured removed to the city of Washington, or any town or city containing 50,000 inhabitants, the increase to be determined by the directors, and not to exceed fifty per cent. This contract became null and void if the insured died upon seas, or, without consent of the company, "traveled beyond the limits of the United States, excepting certain portions of the British Provinces, New Brunswick, Nova Scotia and Canada, or go and remain for one month or more, between the first of May and last of October, south of the southern boundary of Virginia and Kentucky, or west of the Mississippi." Since this first policy was issued on a resident of Boston, a city of more than 50,000 inhabitants, an extra premium of $5 was charged. All premiums were forfeited and the contract was further null and void in event the insured entered into active military or naval service, committed suicide, or died as the consequence of a duel, or at the hands of justice, or in attempted violation of the law.

Every statement in these early policies was made a warranty, specifically providing, "if untrue in any respect" the policy should be forfeited. Limitations and extra premium provisions naturally resulted in making the contract lengthy and complicated, a tendency that grew much worse before it grew better, through the inclination of the companies' attorneys to inject stipulations and conditions whenever a court decision was registered against the company, to hedge against recurrence.

At this time a life-insurance policy was a cumbrous, clumsy contract, absolutely forfeited in event of nonpayment of premium on date when due, devoid of provisions for surrender value of any character whatsoever, restricted as to residence, occupation and travel. Rigidly warranted as to the truth of its statements, a misstatement without regard to its materiality could be made a subject for contest. Claims were established by tedious process, and in no case paid before the expiration of thirty, sixty or ninety days after duly approved and accepted, and without other options of settlement than the payment to the beneficiary in one sum. Death from suicide or inebriacy, without regard to the duration of the policy or the condition of sanity of the individual, commonly brought about complete forfeiture.

These conditions substantially held with all insurance contracts, with the possible exception of those policies granted ministers in the Presbyterian Ministers' Fund, where so far back as 1792 the Board of Directors had passed resolutions mitigating the harshness of absolute forfeiture, but such provisions were not incorporated in even the Presbyterian Ministers' Fund contract until September 3, 1856.

The equity of a retiring member in the reserve against his contract was recognized in different ways by other companies between that date and 1861, when the then insurance commissioner of Massachusetts, Elizur Wright, succeeded in having the first nonforfeiture law passed by the Legislature of that State. The Massachusetts law provided for a surrender value in the form of extended insurance, so that in event of the death of the insured occurring while the insurance was being continued temporarily without payment of premiums, in accordance with the surrender law, the claim would be paid, but the company could deduct the amount of

unpaid premiums at the time of death, with interest thereon at six per cent per annum.

At the Life Underwriters' Convention in 1860 an extended discussion on the subject of nonforfeiture policies elicited the fact that every life-insurance company in the United States, with one exception, paid surrender values either in cash or paid-up insurance after about the fifth year, provided the contracts were surrendered before lapse, and in some cases these values were available after lapse, but none of the companies contracted to pay these values in the policy.

The first nonforfeiture clause embodied in the contract of a life-insurance company doing a general life-insurance business appeared in New York Life policies of 1860, eight months prior to the enactment of the Massachusetts Nonforfeiture Law. This surrender value was in the form of "proportionate parts," the size of the paid-up policy being proportionate to the number of premiums paid.

The first provision for cash surrender value appeared in 1869. The Equitable Life, the company making this innovation, came to the conclusion nine years later, in 1878, that it was unwise to offer facilities for obtaining cash in surrender of a life-insurance policy, and removed this option from the policy, amending its contracts to allow only paid-up insurance in event of surrender. The reason for retraction was the same as that put forth by the companies which had refused to adopt cash surrender values, in the statement that the company "was selling insurance, and not buying it," and that it was prejudicial to beneficiaries to offer cash temptations to surrender insurance protection.

Then the Equitable insurance policy definitely granted a paid-up policy for the amount that the legal reserve of the contract would purchase at the time of default, when applied upon the company's published rates for paid-up insurance.

Shortly afterward, an almost identical surrender-value provision was adopted by the State of New York. Both the Equitable Life Assurance Society of New York and the Maryland Life Insurance Company of Baltimore have pointed out the similarity of this New York law, which limited statutory surrender values to paid-up insurance alone, to the clauses incorporated in their policy. This similarity seems, however, to be an effect and not a cause, the cause being that surrender values in the form of paid-up insurance alone reflected sound actuarial thought of the day.

Extended insurance as a surrender value, like all other liberalities first conceived by the companies and afterward developed by them, was approached testily in fear of unfavorable selection against the company. This provision, accurately described by its name, allows as a surrender value the continuation of the contract in full, less any outstanding indebtedness, for a certain number of years and days without the payment of premiums thereon, the length of extension being determined with reference to the amount of reserve credited to the contract.

Policy loans secured against the cash surrender values of the contract followed the more general adoption of cash values, and were, like the extended insurance provisions, greatly deprecated by many on the theory that loans would tend to promote lapses. Col. Jacob Green, late president of the Connecticut Mutual, remembered for a lifetime spent in untiring attacks upon the deferred or tontine dividend system, was a bitter opponent of the policy-loan idea.

The late Bloomfield Miller, who as actuary of the Mutual Benefit Life Insurance Company did much to evolve the modern life-insurance policy, ably stated what may be said to be the case of the liberal school in contradistinction to

what may be called the ultraconservative class, represented by Colonel Green:

> Gentlemen, your theories are excellent. There is undoubtedly room for abuse in cash surrender values and extended insurance, and there can be no dispute that our first duty is security to the policyholder, protection to the beneficiary, to encourage persistence and see that the individual termination is not at expense or detriment to the remaining membership. By tentative experiment and close observation we find ourselves able to accommodate many policyholders in payment of premiums through policy loans, and serve them in the legitimate uses of the various surrender privileges without suffering increased lapsation or adverse selection to an appreciable extent.

Incontestable clauses give extreme illustration of the conflict between different schools of insurance managers, all honestly striving to furnish the most liberal policy consistent with the best interests of policyholders. After effort to simplify a contract full of restrictions and limitations, with warranties that permitted contest over the most trivial and immaterial misstatements, the companies resorted to incontestable clauses to afford larger security to persisting policyholders.

One large company wrote, for several years, a contract incontestable from date. Most of the other companies have adopted incontestable clauses operative after one or two years, and some few longer. The company writing policies immediately incontestable contended that this liberality to the vast army of well-intentioned applicants more than offsets the extra loss necessarily induced by the choice of this contract by prospective suicides. A recent ruling of this company not to issue a policy incontestable from date for a larger sum than $100,000, has been followed later, in 1909, with the complete withdrawal of the clause achieving imme-

diate incontestability and its replacement in a clause making the contract incontestable after one year.

Adoption of noncontestable limits naturally assisted in removing other restrictions, since no restrictions except contract stipulations for extra premiums in certain events could operate beyond the time of contestability. Intercourse made possible by modern transportation facilities and the improvements everywhere in hygiene and sanitation have resulted in practically removing restrictions as to travel. Dueling has happily been eliminated, as have "Indian massacres" and other hazards of our pioneer epoch. Residence in the large cities is, of course, in no way penalized. Occupation and military and naval service many companies leave absolutely unrestricted, assuming the responsibility of determining whether the applicant is intending to increase the hazard by change of occupation or residence, at the time the risk is offered.

Payment of claims immediately upon receipt of satisfactory proofs is the order of the day, though so late as 1881 not a company in America paid before thirty, sixty or ninety days. Later, the insured was offered the option of either having the claim paid in cash, or one lump sum, or having the amount paid to beneficiaries in instalments running ten, fifteen or twenty years, increased in amount by an assumed interest rate. Next, the privilege was added of having definite payment made to a beneficiary during a definite number of years and appending a "continuous clause" providing in event the nominated beneficiary survived the definite instalment period, usually twenty years, that the payments would continue thereafter so long as the beneficiary lived.

The life-insurance policy of to-day is a product of competition and of endeavor to serve the policyholder in every

way that does not endanger the primary protection. The modernizing innovations would have been impossible without the genius of the actuary and others attracted to life insurance; without the knowledge which their genius evolved from their experience; and above all without the tedious process of extending the experimental hand as far but no farther than it could with safety be withdrawn.

Every liberality in life insurance is a result of scientific experiment tried tentatively by one or more of the various life-insurance companies and embodied wherever and whenever it was deemed safe. Credit is due practically every older life-insurance company for major innovations and to many of the younger ones for minor improvements. By the very nature of the business no legislature, in the absence of skill to originate, and facility and ability to experiment without disaster, could have or dared have introduced the liberalizations or have lifted the restrictions that have evolved the life-insurance contract to its present-day usefulness.

David Parks Fackler, the veteran consulting actuary whose half century of professional service has covered the epoch of American life-insurance evolution, concludes that legislation has retarded and not advanced the cause. He says:

> Legislative intermeddling in this country has kept our companies from developing as freely as in England, and in some cases has injuriously affected the interests of the policyholders; thus, when the New York Legislature in 1879 passed the present nonforfeiture law, it actually had the effect of reducing the paid-up policies given by some of the companies, because under the color of obeying the law they were able to give less paid-up insurance than they had previously felt compelled to give under the influence of competition.
>
> In England the fiction that all laws come from the sovereign has made people more jealous for personal liberty than here, where

the power is supposed to come from the people; consequently in some respects the liberty of the "subject" in England is less restricted than the freedom of the citizen in the republic.

This statement made before the passage of the new Armstrong insurance laws of New York is singularly confirmed by those laws. The New York "standard policy" law, happily repealed in 1909, served to limit freedom of contract without improving the policy.

It can scarcely be claimed that annual distributions of surplus called for by the New York standard policy and the standard dividend clauses of the Western States are the advanced evolution of the dividend idea, or that this is a legislative innovation. Many companies have never departed from the annual-dividend plan; in fact, the tontine, or deferred-dividend principle which came into general disrepute during the insurance investigation was itself an evolution, replacing, with many companies, a plan of short-term distribution, usually once in five years and often less.

The evolution of the policy is perhaps the best evidence available, and surely none could be more convincing, of the value in American affairs of healthy competition and Anglo-Saxon individualism. The policy of to-day is a much better contract than the one sold our fathers, and immensely better than the early ones of grandfather days. If insurance has not cheapened in price, it has achieved the other factor in supplying value received by increasing in benefits.

Evolved from a tendency of gamblers to speculate, the life-insurance policy has achieved its modern usefulness in protecting the individual from the speculative uncertainties of human life. Compared with the insurance gamblers of the eighteenth century, who risked their gold for gamblers' spoils, the modern gambler who gambles the future of his dependents for the petty premium he retains in his own

pocket is immensely the greater plunger and more desperate gambler.

The changes of one hundred and fifty years are forcibly brought out by contrasting the excerpt quoted from the London *Chronicle* in 1758 with the following recent comments of the *Sunday-School Times:*

> Death is not a matter of chance, but a certainty; therefore, one who may be called upon to meet that certainty ahead of his dependent wife and children has no more right to ignore their future dependence. That which is needed, or likely to be needed, and which we can provide, God would have us provide. Life insurance is one way of meeting such need, and is a blessing that would seem to have God's abundant approval.

The last word in the Evolution of the Policy is that in its beginning the gambler was the man who took it, and that now the gambler is the man who refuses it.

CHAPTER V.

YOU: HOW LIFE INSURANCE CAN SERVE YOU.

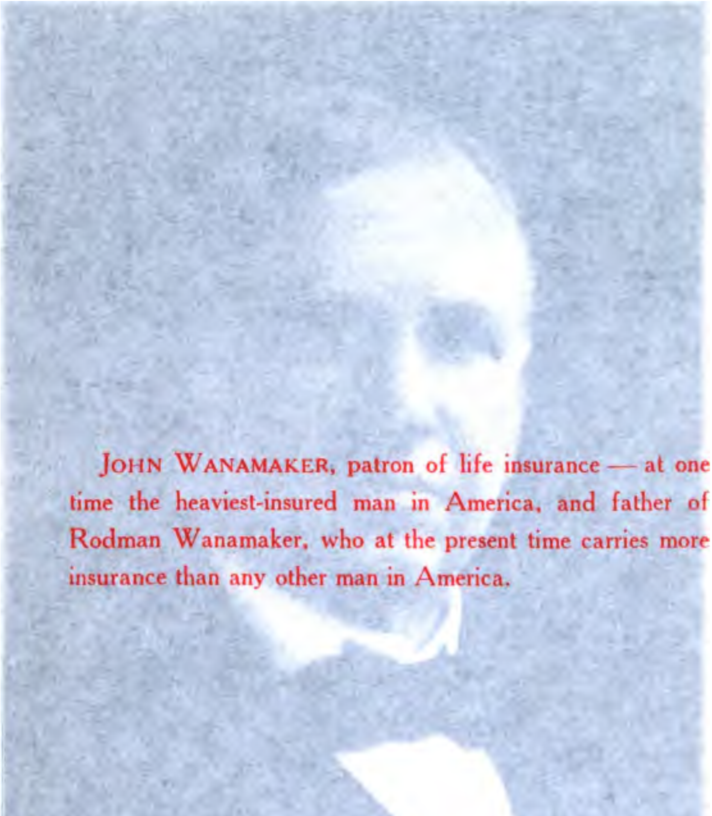
WHEN Bobby Burns lay dying he picked up that pen with which he was wont to stir the human heart to deepest tenderness, and with palsied hand he scribbled a few lines which deserve to endure with the best of his work. He wrote to the friend of his bosom:

> Alas, Clark, I begin to fear the worse: my poor wife a widow and her six little ones helpless orphans; and I as weak as a woman's tear. But enough of this. It is half my disease.

Robert Burns needed life insurance. Recognizing the necessities of his dependents when "weak as a woman's tear," his condition was the more pitiful because antedating the life-insurace era.

Yet thousands of similar cases occur to-day, despite the facilities life insurance affords for avoiding this direful contingency. In such cases the husband's thought of the penniless widow, the father's vision of outcast orphans, the business man's nightmare of crumbling credits, must be that "half the disease" of the lamented Scotch poet, and in addition the fraction representing neglected opportunity.

There is no excuse for life-insurance ignorance. Law imposes its penalties alike on the knowing and unknowing offender, assuming it every man's duty to know the codes enacted to protect him and his neighbors in life, property, and pursuit of happiness. Similarly, dependents and associates of the non-insured pay, in the toils of penury, the same high penalty without distinction, whether inflicted by



JOHN WANAMAKER, patron of life insurance — at one time the heaviest-insured man in America, and father of Rodman Wanamaker, who at the present time carries more insurance than any other man in America.

UNIV. OF
CALIFORNIA

JOHN WANAMAKER

UNIV. OF
CALIFORNIA

brutal disregard of the knowing mind or thoughtlessly by the neglectful unknowing.

Since the days of Robert Burns life insurance has evolved into a system of protection that offers the independence of capital to the uncapitalized and the assurance of continued capital to the capitalized. He who would be served by life insurance must apply when conditions of health and strength least suggest its need. Life insurance is not issued to the weakling and diseased; it can be obtained only when contingencies of disease and death seem the most remote. Among the strong new entrants in life insurance during the year 1906, two thousand two hundred died before the year was out, causing more than $4,000,000 to be paid to beneficiaries. Yet, as an event, death is less to be expected than the loss of ruddy health — the loss of the condition under which a standard life-insurance policy can be obtained.

Large though its volume in the fourteen billions of old-line life insurance in force with American companies the business is but in its adolescence. The usages to which life insurance may wisely be applied beyond the great central purpose of family protection are only meagerly developed. Not to belittle its present proportions let it be remembered that $14,000,000,000 equals in figures about twelve per cent of the total wealth of this country, exceeding such huge aggregations of national wealth as the total value of manufactured products and the total value of railroads. In 1860 there was in force $163,000,000 of life insurance, and savings bank deposits to the extent of $150,000,000. Forty-six years later the amount of deposits was twenty-three times as great, amounting to $3,690,000,000, while the volume of life insurance exceeded seventy-five times the amount in 1860.

Pseudo-philosophers, viewing the large proportions of

life insurance, and wholly innocent of the knowledge contained in our 1900 census report that thirty-two per cent of the widows in this country are obliged to earn their own living, conclude at times that life insurance is overdone; while the more thoughtful may ask, Why do you state the business is but in the youth of its vigor? Edward A. Woods, of the famous Woods Insurance Agency at Pittsburg, who has done much to popularize life insurance by explaining it, answered this question in the following way:

The estimated population of the United States in 1906 was 17,830,802 families, of 84,154,009 persons, of whom 29,285,922 were wage-earners. Assuming average earnings of $500 a year, and the average age of each wage-earner thirty-five, with an expectancy, therefore, of thirty-two years, the present value of each life would be $8,937, the amount required to produce $500 a year for thirty-two years. Excluding from consideration the lives of all women who are not wage-earners, we have:

Total value of productive lives..........	$261,728,284,914
Insured for	12,597,391,738
Percentage of value insured...........	4.8 per cent.
Of the 116 billions of property in the United States, the combustible does not exceed	55,000,000,000
Total fire insurance carried............	45,000,000,000
Percentage of value insured............	82 per cent.

Mr. Woods' fire-insurance figures make a telling comparison. Life, the great creator and conservator of the world's wealth, is grossly underinsured when compared with fire insurance, estimated to cover three-quarters of combustible property of the civilized world, or with marine insurance, which covers practically all property afloat.

Another answer to the life-insurance question, though regrettably one that can not be shown in aggregates, is the answer that must come when each of you put to yourself the query: "Am I insured in proper amount?" In other

words, were you on your death-bed, realizing the fact, as did Robert Burns, would the lack of life insurance in proper amount be half your disease, or any portion of it?

Life insurance, like all other forms of insurance, is primarily protection. It is not an accumulator of wealth, but a distributor — an indemnifier exacting the small tolls from the living mass for indemnity upon the deceasing few. Unlike indemnity against risks which may or may not happen, life insurance covers the unescapable event of death, the only uncertainty being the time of its inevitable occurrence.

Most properly then, life insurance, again like other forms of insurance, is a protection tax. Vain endeavors to give life insurance aspects of being an accumulator of wealth, a rival of savings banks, or a high-paying investment, have been made in misguided search for motives that might influence patrons, whereas a staunch adherence to the primary protection power of life insurance establishes abundant motive and when properly presented must prevail. In its own field of protection life insurance is beyond the competition of purely savings or investment institutions. The savings bank, the trust company, the building and loan association, and the thousand and one other worthy investment and savings institutions can receive the money of their patrons, and in the event of their life and continued contribution, hoard and amass these sums. But the life-insurance company is alone in supplying a complete and finished investment, accumulation, savings, or whatever else you choose to call it, from its very inception.

With the first premium paid on a policy the entire sum of the policy becomes at once the available estate of the policyholder in event of his decease. It is his to will. No portion of his estate can be more secure, dollar for dollar, or more certain of realization. It is not to be denied that

the Ordinary Life policy has savings-bank features, and the Limited Payment Life policy and the Endowment policy successively more so, but to attempt to subordinate its protective functions to investment appeal is to distort life insurance and subtract from it.

Opinion fixes the Whole Life or Ordinary Life policy as the basic insurance contract. The Ordinary Life policy is a contract to pay the face amount upon the death of the insurant, provided that death occurs while the policy is being continued by payment of a level premium fixed for life. The Ordinary Life policy may therefore be called a continuous premium policy, the premiums to be paid during life, and the benefit paid at death. Annual premium charges run about two per cent at age twenty-five, to three per cent at age forty, less on the non-participating plan, and subject to dividend reductions on the mutual plan. At older ages the premiums run increasingly higher. Modern Ordinary Life policies provide also equities in paid-up insurance in event of surrender, but so long as the policyholder would enjoy without qualification the protection of maximum death benefit stated in the policy, he must continue it in full force by the payment of premiums thereon.

Next in order is the Limited Payment life-insurance policy, the one with premiums limited to ten, fifteen or twenty, or any other number. Limited Payment policies are Ordinary Policies over again, the distinction being that instead of premiums being required continuously during the lifetime of the insured, a mathematical equivalent is exacted in a limited number of premiums — usually twenty — unless, of course, premiums cease by prior death. Therefore the premium on the Limited Payment policy is higher than the continuous premium policy, and according to the fewness of premiums; the extreme case being a one-premium policy

called a Single-payment life insurance. The one-premium, or as it is better known, the Single-premium policy, at age forty costs about fifty per cent of the amount it insures; at younger ages the premium is correspondingly lower, at older ages higher.

These simple explanations cover the distinguishing features of that vast number of life-insurance policies that have at times been absurdly called "die to win" contracts. This pseudonym has too often hidden sinister selfishness to be even humorous. It needs but superficial analysis to strip it of any semblance of logic, for who would die to realize on his insurance, or who in dying can be said to win?

Endowment policies provide insurance for those who need or want more than the protection purer life policies offer. By means of Endowment insurance a policyholder is protected in event of death during the continuance of the contract, and in addition is guaranteed the payment of the sum in event of surviving the designated endowment period. Thus a Twenty-year Endowment policy, the most popular form of Endowment, is good immediately for its full face in event of death, and good to the holder in event of surviving the twenty years. All forms of Whole Life contracts are as certain as death in their eventual payment, but the Endowment policy may be said to be both as certain as death and time, for it must be paid one way or the other by the end of the nominated endowment period. The Endowment policy is higher priced because of the provision it makes for payment during the lifetime of the policyholder.

Term insurance policies provide temporary insurance protection. Frequently these Term policies are non-renewable and terminate absolutely at the expiry of the period for which they are written; in other cases they are renewable, but always at the higher premium for the attained

age, and except where the Term is for a long number of years, carry absolutely no surrender values. Term insurance is the lowest premium insurance of all — the shorter the term, the lower the premium. It is erroneous to think Term insurance cheaper than other forms. Its premiums are less — so are its benefits.

These forms of insurance just described embrace all but a small per cent of outstanding American life insurance. Varied classes and conditions of insurance needs can, with occasional exceptions, be supplied by judicious selection among the forms described; the exceptional cases can obtain policies fitting the exceptional circumstances at commensurate premium.

"What kind of a policy should I take?" is the constantly recurring question of the prospective insurant. With some there is commanding reason for taking one particular form of insurance and no other. In different circumstances it may be a matter of small importance, as the several forms each offer insurance value in full on a mathematical basis of mortality table and assumed interest rate for the premium exacted.

As a general principle, wage-earners and those of limited means do well to select the Ordinary Life policy, because of the large amount of protection it supplies for the premium. Men of large resources find it also an excellent form of protection, because it insures on the minimum premium, leaving available dollars for investment in the profitable channels that large resources supply.

The Limited Payment Life policy's strong point is that it may be paid for during the time of relatively large productivity. There is a considerable element of savings in a Limited Payment policy, the more so as the number of payments are shortened. Ten-payment Life policies are fre-

quently selected, and properly so, by young and middle-aged men with the ability to pay more than the Ordinary Life premium for their current protection, and the wisdom to recognize that insurance is a necessity and must be paid for at one time or another. The Twenty-payment Life policy is probably the most popular of all forms of insurance, for the reason that the premiums are not greatly higher than the Ordinary Life premium and yet offer a contract paid up in full at a definite future time. Smaller salaried men, whose income must shrink as age deteriorates the value of their services, would do well to make the extra sacrifice necessary to provide an adequate amount of Twenty-payment Life insurance.

Endowment policies, and particularly Endowment policies for twenty years or longer, are admirable as a protection and a savings fund. It is speciously argued that a prospective insurant might more wisely separate his insurance protection from his savings account, carry his insurance on life forms and invest the balance of premium over a life form in the savings bank. Endowments of twenty years and longer show well when contrasted on the basis of an Ordinary Life policy and savings bank account with the tremendous advantage of systematizing the savings of the policyholder. People entering upon an obligation to pay an Endowment premium will do so where too often the funds, in lack of definite obligation or system, would not be saved at all.

Endowment policies are particularly the policies for women.

Term insurance, previously described as one of the fundamental forms of insurance, is only valuable for affording protection over temporary necessity. As insurance for the responsible head of a family it is unsatisfactory, and

though the premium is less, it is not likely to be ultimately the cheaper, because successive renewals at increased premium raise the cost above a level premium contract on the one hand, and on the other hand, where no renewal privilege exists the holder is likely to find himself without life insurance at the expiry of the term, and without the ability to stand a medical examination that would permit it. Term insurance has its more particular field among business men, and those undertaking temporary financial obligations which would be affected unfavorably or prove a total loss in event of death.

Annuities, which are in many ways the reverse of life insurance, show tendencies to popularity on this side of the Atlantic, after the fashion they now enjoy on the other side. Annuities are usually purchased in one lump sum to provide an annual payment during the lifetime of the annuitant.

The death of the centenarian Betsy Gage, in April, 1907, brought the subject of annuities into newspaper columns. The case is interesting because of the advanced age at which the annuities were bought. In 1880, when Mrs. Gage was seventy-two years of age, she paid $2,000 in purchase of an annuity payable annually to her so long as she lived. Sixteen years afterward, when eighty-three years old, she purchased with $1,300 an additional annuity, making a total investment of $3,300. Annuity payments returned to Mrs. Gage during her lifetime exceeded $12,000, and no doubt contributed largely in achieving the comfortable old age which was hers by removing all financial care. Innumerable annuities might be quoted where the returns were much larger, while in still other cases the early death of the annuitant forfeited the purchase price to the company before the payment of the second annuity. Upon the whole,

however, annuities have worked out to the great satisfaction and profit of their purchasers.

Whatever form of life insurance is contemplated or is now being carried, knowledge of its various provisions — the how and the when of their being — is a necessary condition to obtaining largest service. Every policyholder should be familiar with rights of grace and reinstatement before taking any chances of forfeiting the insurance in failure to make prompt premium payment. Usually policies provide for thirty days' grace, and for reinstatements in event of lapse. As a rule companies grant large leniency to lapsed policyholders who wish to reinstate, but at times are forced to decline reinstatements of persons sorely needing insurance, because their physical condition forbids it in justice to the remainder of a mutual membership whose contracts specifically state that reinstatement must be predicated on good health. Until reinstated a forfeited policy means nothing; in event of death in the interim it is nothing.

In this connection every policyholder should examine his contract for "Extended Insurance Provisions." Extended insurance as written to-day is frequently "automatic." That is, where the policy lapses for non-payment of premium and no other surrender value is requested in accordance with the terms of the contract, the policy continues in full force under the extended insurance provision without action of the insured, for the number of years and days stated in the policy.

Intelligent use of the extended-insurance provision will at times enable a policyholder to discontinue premiums and yet obtain all necessary insurance, where his span of lifetime is certain to be included within the number of years for which the same can be extended, or where his affairs need no insurance after the period to which this policy would be

carried as a surrender value. Where the extended insurance is to be obtained only upon application, it is the more necessary for the insured to be watchful of premium payments. Extended-insurance provisions are dangerous ones to abuse. The policyholder who improperly considers this provision to be useful in furnishing free insurance for a number of years will but be using up his equity in his previous premium payments, to find himself at the end of the extended period absolutely without insurance and only able to obtain it, if at all, upon passing a rigid medical examination and paying the higher rate for his attained age.

Carelessness in appreciating and recording the value of this extended insurance, especially where it is granted without action on the part of the lapsed policyholder, is keeping thousands of dollars tied up in the home offices, where the insured has died within the extended term, leaving both the company and beneficiary unaware of the fact that there is a claim under such policy.

The annals of life-insurance companies are replete with dramatic incidences of unexpected succor through extended insurance.

Paid-up insurance as a surrender value, an older custom than that of extending the insurance, is also better understood. With certain companies and in certain States the rule is to make the paid-up surrender value the automatic feature in event the lapsing policyholder does not make a selection of surrender value. Every paid-up policy means an ultimate claim to the company and it is therefore the more necessary that paid-up surrender values be properly recorded and understood. It is only in this way that the full beneficence of the policy will reach to the claimants. One company has recently adopted the practice of advertising in its company paper for information about paid-up policyholders

of whom it has lost track. As a result of this advertising in two months one hundred and fifty names were located, and thirteen claims were paid beneficiaries of policyholders found to be deceased.

In surrendering a policy for paid-up insurance, a policyholder sacrifices the difference between the paid-up policy and the full face of the contract. Where this difference is large, it becomes the more important to debate whether the burden of continuing premiums is not a lighter one than that of risking death without necessary insurance protection.

Cash surrender values, now contained in practically all policies, and sometimes made the automatic surrender value, are a much misused policy feature. A policyholder who would surrender his policy for cash should ask himself if the conditions for which he originally took this insurance still exist. If they do not exist in appreciable degree, it may be advisable to surrender the policy for cash. If the same conditions do hold, in whole or in considerable part, nothing but the direst need of cash and the inability to obtain it under any other circumstances would justify a cash surrender, or should cause a wife to join in request for cash that cancels insurance. Since practically all companies grant loans on the policy wherever a cash surrender value is available, it is the part of wisdom for a needy policyholder to use the policy-loan provision rather than surrender for cash. He can thus have his insurance continue in force, remembering that it is in time of financial stress that the beneficiary most needs to be protected from the dire results of a legacy of orphans, poverty, or both.

Like the cash surrender itself, loan values must be approached with appreciation of the sacred character of life-insurance funds. The man who would borrow on his life insurance to indulge in speculations, or any form of luxury,

is militating against the interests of his own and against the purposes of his insurance. The loan provision should remain an anchor to windward — an assurance in times of temporary distress of means to meet the premium obligation. A policy loan is a policy mortgage. The man whose respect for his home and his own would make him reluctant to mortgage his house should logically be more loath to mortgage his insurance.

To this general statement there are exceptions. In the 1907 money scarcity, when men of means were unable to obtain funds which were theirs in banking institutions and which they could profitably employ, life-insurance policies were utilized for temporary loans. While the policies only incidentally provide loans, it is to the credit of life insurance that no policyholder was denied a contract loan at the contract interest rate, though banking institutions throughout the country were withholding from their depositors money which was theirs legally and morally to demand. Many a well-to-do man, who could safely have used policy-loan provisions to the extent of moneys which should have been available from the banks and trust companies, faced embarrassment instead because he did not know his privileges under his life-insurance policies and how to take advantage of them. By the same reasoning it follows that policyholders borrowing in such times of financial stress would do well to replace the money and lift the mortgage from their life-insurance policies, whenever money may become more generally available.

Every word in a life-insurance policy means something, and should be read, understood, and remembered. Within brief space it is not possible to treat the variety of provisions as to adjustment for age, and penalties for change of occupation and traveling beyond limits set forth in the policy,

etc. Any person who travels beyond the confines of the United States should look up his or her life-insurance contracts to avoid possible litigation and loss in event of death in restricted or forbidden territory.

Modes of settlement should receive the thoughtful consideration of the policyholder. The most usual form of payment of a life-insurance policy is in one sum of the face amount, but a large variety of policies allow other options or absolutely stipulate that the policy be paid in some other way, such as in annual instalments during ten, fifteen or twenty years. Policies payable in annual instalments receive a higher total payment for the premium because of the interest-earning powers of money. Continuous instalment features are often added to twenty-instalment contracts, stipulating that, in event of nominated beneficiary shall survive to receive the full twenty instalments agreed upon, the instalments continue thereafter during the remainder of this beneficiary's lifetime. If under a continuous instalment option the beneficiary dies before the full twenty instalments have been paid, the commuted value of the remainder of twenty instalments is paid the estate.

All these methods of payment, whether in one lump sum or in a fixed number of instalments or in continuous instalments, are mathematical equivalents, leaving decision to be rendered on which method is best adapted to the claimant. Where there is but one beneficiary, and this beneficiary inexperienced in the handling of money, a policy calling for twenty instalments and continuous thereafter makes certain provisions for maintenance to the extent of the instalments, and eliminates the danger of loss through bad judgment, bad investments or bad advice. Similarly the policy payable in ten, fifteen or twenty instalments or any number of instalments certain, can be selected to supply money annually to

the beneficiaries over the period in which it would be most valuable. On the other hand, the old-fashioned payment in one sum gives the largest financial independence to trustworthy and efficient beneficiaries, and allows the increment which investment ability can add to capital.

It behooves a policyholder to reconsider in the face of later events and changed circumstance, the method of payment of his policies to meet changed conditions, and have his policies changed as conditions dictate.

There are two general plans of insurance — the participating and the non-participating. Non-participating premiums are lower than the participating or mutual premiums, but the latter policy provides for the return of surplus premium in dividends.

Another element of choice is present in mutual insurance in the manner of dividend payments. The insurant must decide whether dividends shall be received in cash or as a reduction of the premium where further premiums are required or in paid-up additions to the policy. If at the dividend-paying time the insured is non-insurable for new insurance it would most assuredly be advisable to apply the dividends in purchase of paid-up additions to the contract, as this is the only way then open to increase the insurance, and as this option may thus furnish the non-insurable person insurance upon the basis of a standard risk. In purchasing a paid-up addition to the policy, the dividend is applied as a single premium. Since single-premium insurance calls for the largest outlay for the amount of insurance provided, the man anxious to increase his insurance to the full extent of his means will find it wiser to take the dividend in cash and apply it as an annual premium upon a new insurance, where such new insurance is obtainable.

A dividend applied as an annual premium at attained age

will purchase, at middle-insurance ages, fifteen times as much insurance as the same dividend would add as a paid-up life addition to the contract. At the younger ages it would purchase in even higher ratio, while in older ages the ratio would be less. Where the requirement for continued premium payment becomes burdensome, the dividend can be applied in reduction of the premium, or where the policy has become paid up and the insured feels the volume of insurance to be ample, the dividend can best be taken in cash.

Returning to the discussion of classes, various reasons appear for taking life insurance that bring out the catholicity of its service. Rich and poor, young and old to the age limits of acceptance, the financially well-to-do and the financially involved, the laborer and the capitalist, have all urgent motives for life insurance, and are well represented in volume among its patrons. The reasons why a poor man without accumulations or capital needs insurance to discharge post-mortem responsibility to that family which by his voluntary act he has created, are too obvious to call for utterance. The wife of his selection, the children of his parentage, have claims for support and competence which endure beyond the grave.

The ministry of this country are practically unanimous in urging insurance upon the uncapitalized man. Some have even suggested the advisability of declining to marry the salaried man without accumulations or without life insurance.

So on up through the scale to the rich men of the country, the need of life insurance may be pointed out in varying ways. The most urgent advocates of life insurance are to be found among the wealthy men of the nation. To go through the list of millionaires in the country is to go through the list of the heavily insured men of America.

A sagacious Jewish corporation of high repute in Los Angeles recently purchased a Ten-year Endowment insurance upon the firm, at an annual premium of $76,722.70, one of the largest annual premiums ever paid on a single policy.

Fifteen years ago the Commercial Cable Company entered into an agreement to insure employees upon the Endowment plan. Vice-president George D. Wood stated the purpose "to make provision for the family of the employees of the Cable Company in case of death, and to provide a source of income for such of the insured as survive, but who shall become no longer able to perform their duties satisfactorily." Similar institutions might well imitate Mr. Woods' plan, which has worked out with such great satisfaction to the Cable Company.

The majority of the employees took Twenty-year Endowment contracts which will, therefore, mature in 1913. One hundred and forty-four of the other employees selected the Fifteen-year Endowment plan, maturing April 6, 1908, and it is therefore possible to give the following detail: Twenty-three of the employees died in the meantime, covering insurance to the extent of $53,000 paid to their widows and beneficiaries. Nineteen employees discontinued their service, twelve cashing in their contracts at an aggregate sum of $23,000, and seven either lapsing their insurance or reducing it in amount. The remaining one hundred and two after fifteen years of continued service received an aggregate of $355,428.62, $71,392.63 of which was dividend additions. The total premium paid the company was less than $300,000, one-half of which was contributed by the Cable Company, the other half by the employees, who thus received at the end of fifteen years $355,000, besides insurance protection during that entire time. The operation of the Twenty-year Endowments gives promise of being even more satisfactory.

The United Cigar Stores Company is another large corporation insuring employees and donating to the premium payments.

An Endowment deal of unusual character is an insurance of $100,000 placed upon the students and priests of the College of Valley Field near Montreal to endow the college. The Twenty-year Endowment plan was chosen, the premiums paid from the college fund, and the college named as beneficiary.

Partnership insurances are alike advisable, whether a partner is supplying capital, experience, or brains and energy. Each partner owes it to himself to view the possibilities for disaster that may result on the other partner's death, and to suggest the corrective in life insurance A partnership policy can be written in one contract as a Joint Life proposition, and as such is not to be viewed as a separate insurance upon the partners, but more properly as an insurance upon the first death. The partners, like the life-insurance company, are, of course, unable to name which member of the firm this will be; hence a policy that covers all members of the firm.

A Joint Life policy may occasionally be desirable for other reasons than that of business association. They are not infrequently issued to cover two lives or occasionally issued on three people, but seldom more. It is usually more satisfactory for a firm to carry separate insurances upon the lives of each member, making provision in case of all deaths. This offers facility for changing the personnel of the partnership without the complications that must arise where the partners are covered under one Joint Life policy.

Individuals taking on new obligations should record the event for increased insurance protection to the extent of the added obligation. Marriage for the single man, increase of

family and of dependents to the married man, and increase of standard of general living or general financial involvements, all mark the time for applying for more insurance. The farmer needs extra insurance for every additional dollar of mortgage, and the building and loan investor or instalment purchaser of real estate to pay up his investment and insure against the loss of what he has paid in the past, in event of failure to live through the contract. The height of folly is attained in lapsing insurance at such times to discontinue premium obligations.

An excellent bit of advice that will save time and money is: avoid consulting attorneys about your insurance until you have made inquiries at the home office or at your State Insurance Department. All the attorney does in such cases is to write the company himself, or read the policy, whose construction is a matter of English more often than law.

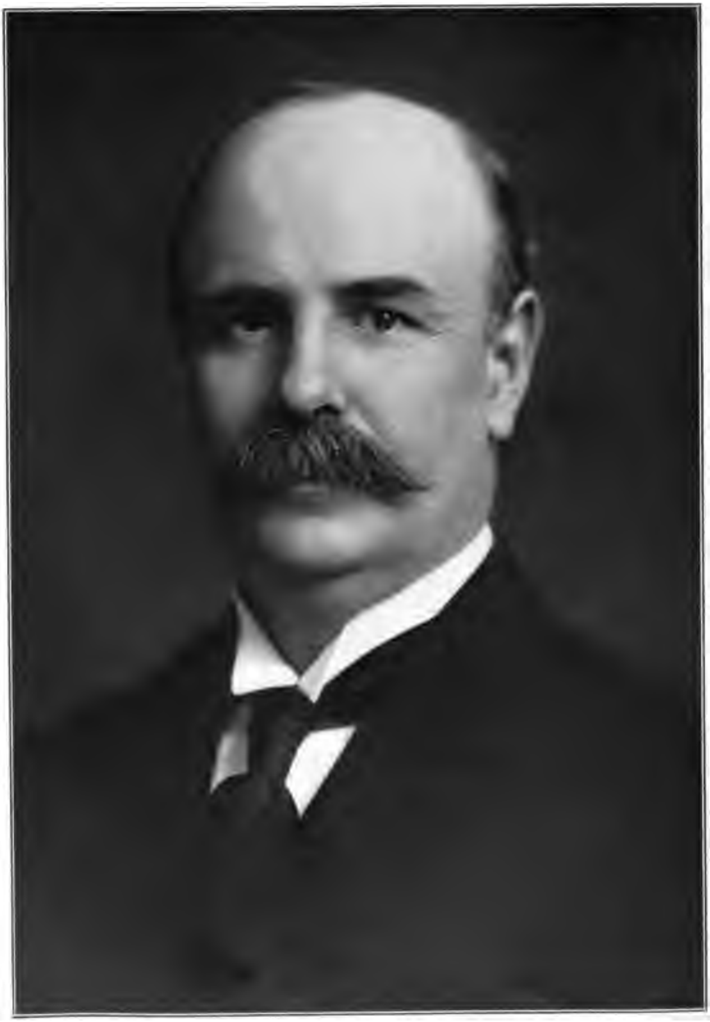
A feeling of remoteness where the home office is distantly located prevents many a policyholder from asking explanation and advice on his contract and insurance needs which would redound to his interest. There is no necessity for this attitude, as all companies have in their agents ambassadorial representatives. The agent of the company is equipped and willing to render service that calls for personal appreciation of a situation and the personal touch.

Life insurance can serve you only in the carrying of life insurance, and serves him best who insures most adequately in proportion to his needs.

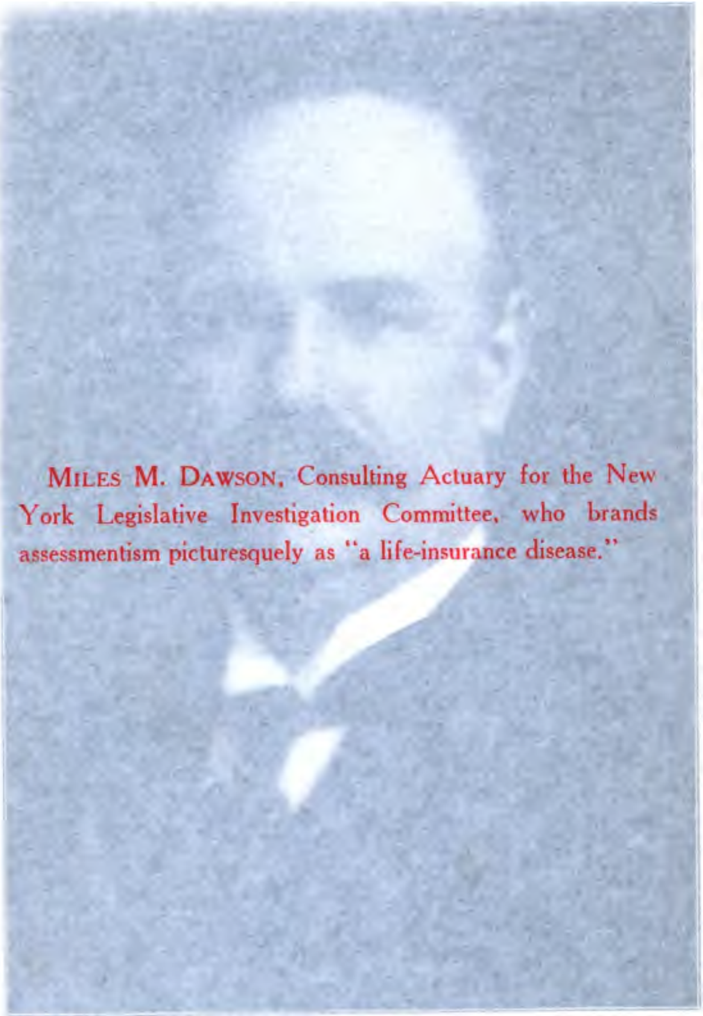
Read your policy; learn how to use what you have as an obligation to yourself and your own. Above all put to yourself the question: Am I insured in proper amount? Judge your insurance needs by poor Bobby Burns' lament, and act upon the answer.

UNIV. OF
CALIFORNIA

UNIV. OF
CALIFORNIA



MILES M. DAWSON.



MILES M. DAWSON, Consulting Actuary for the New York Legislative Investigation Committee, who brands assessmentism picturesquely as "a life-insurance disease."

CHAPTER VI.

THE THREE SYSTEMS OF LIFE INSURANCE.

THE stock story of the Irish fisherman who, questioned at his favorite pastime as to how many fish he had caught, replied, "When I catch this one and another one, with the one now on my string I will have three," is not without its parallel in the reference to three systems of life insurance.

The word "system" implies a workable plan, and at once it must be stated that but one form of life insurance has demonstrated its enduring workability. Commonly, however, life insurance is classified into three subdivisions or systems: Old-line, Assessment, and Fraternal.

The story of the three systems runs simply, beginning with the undeniable increase in mortality that follows an increase in age. Adult mortality increases constantly, the increase being small up to middle age, reaching a death rate of one per cent about age forty, growing higher in increasing ratio at the older ages.

If an insurant paid each year merely the current cost of his year's insurance, the rate would consequently be an increasing one, lowest during the first year, increasing moderately up to middle life and more rapidly thereafter, tending at the older ages to become prohibitory. A contract of this kind was formerly known as the "Natural Premium" or "Step Rate" contract, and for a while developed a small class of insurance companies that issued it alone. It proved unsatisfactory for permanent insurance because of the excessive rates at the higher ages, forcing

many to withdraw at a time when they greatly needed insurance and after long persistence in making payments.

Recognizing the impracticability of an increasing rate that would assume excessive proportions in later life, old-line life-insurance companies equated the rate upon proper tables of mortality to provide an unchanging or "level" premium. This means that the equated premium must be larger than necessary during the earlier years of the insurance, and implies necessity for husbanding the excess at the assumed interest rate, thus forming the legal reserve of old-line life-insurance companies.

Old-line reserves are scientifically computed in accordance with assumptions of mortality and interest adopted by the company, and of necessity must not be less than required by the standards fixed by the laws of the States in which the company does business. As the rates of mutual old-line life-insurance companies may prove more than necessary for the conduct of the business, the payment of policy obligations as they mature, and the accumulation of proper reserves, the remainder is returned to the policyholders by way of dividends.

From this it will be seen that life-insurance reserves are an effect and not a cause — the effect of charging a non-increasing premium for an increasing risk. Lack of appreciation of this fact has given a receptive audience to the assessment cry of "Keep your reserve in your pocket," which means, if anything, increasing premiums at a time of decreasing productivity.

Assessmentism, in lack of proper provision for the increasing risk, charges premiums lower than is permissible under the standards fixed by the States for old-line life-insurance companies, the contract being supplemented by safety or emergency clauses of assessmentism. These safety

clauses, legally expounded, are the "Hands Off" sign to State supervision. They cheapen the insurance to the price and deprive the word "inadequate" of its Websterian meaning.

Here is a type of the safety clause boldly presenting the weak point of assessmentism as a mark of strength, as if the legal reserve, which is but an accounting of excess level payments in the earlier years, were an unnecessary tax upon policyholders. The clause, minus the italics, reads:

> This association qualifies under the so-called "Assessment Laws," under which it is not obliged to *tax* its policyholders to maintain the legal reserve of level premium or "old-line" companies. . . . .
>
> The past experience of this company and the American tables of mortality indicate, *as we believe,* with absolute certainty, that the rate spoken of as the maximum will never be exceeded. If, however, any unexpected emergency should arise whereby the mortuary and reserve funds should become exhausted, then, and in such case only, *it is agreed that the policyholder shall be liable for such further assessmennt as may be necessary* to meet such emergency and maintain the solvency of the company.

"Legal reserve is legalized robbery," cry assessmentism's active supporters, in attempt to confuse an averaging of the cost under a responsible system into appearances of addition to the cost. Fearful of this alliteration as permanent justification, other flagrant fallacies are advanced. Old-line life-insurance rates are presented as excessive because of the enormous lapse gains which accrue to the company and are not anticipated in the premiums, unmindful that lapses in the first year or two in old-line life insurance are not a source of profit because of large initial expense, and that after that time surrender values in generous amount are allowed.

Chief among assessment fallacies is the "new blood" error. Assessmentism speciously argued that by means of increase in the membership, the average age of a company

would be kept down to a point where no increase in mortality would be experienced in the aggregate. Years ago it was pointed out that this argument meant the taking in of new members at an increasing ratio impossible to maintain, and involving the absurdity of persuading young men to flock into a company and bear the burdens of an older membership. Despite these considerations, assessmentism flourished.

A clientèle attracted by the low premium and for the most part anxious to deceive themselves into a belief in its adequacy, supplied an eager patronage. Opportunities for graft and profit to the promoters of assessmentism attracted a brood of conscienceless adventurers prolific in unmeaning promises and eager for plunder. Offering life insurance at a less rate than it could possibly be carried throughout life, even with skilled and honest management, these institutions could yet put off disaster so long as their assessments kept ahead of current costs. During such interim the operation of an assessment company issuing contracts inherently irresponsible and unguaranteed, could be made profitable to the managers in reckless extravagance to themselves in salary, and incidental graft, to end in the utter wrecking of the association.

Even with the better type of assessment companies, when too long-delayed adjustment was attempted under the emergency clauses of the contract, the members who were insurable withdrew to get insurance elsewhere, leaving behind an undue balance of risks who persisted because unable to obtain insurance otherwise, which in turn greatly increased the mortality and called for further, and what history has too often shown to be prohibitory, adjustments.

The history of assessmentism has been a history of disappointment, attested in living voices of disappointed patrons, victims to its false economics or open dishonesty,

and most sadly evidenced in the thousands of survivors of defunct assessment institutions left without insurance and without the conditions of health and youth that would make them acceptable for insurance. Assessmentism has dwindled with an appreciation of its dangers, and there is no remedy to suggest for it save that of legal extinction. Iowa, the scene of so much assessment distress in the past, has taken the initiative in preventing by statute the formation of any further assessment life associations or corporations. Sentiment elsewhere approves the move of Iowa, and it is to be hoped will give it further force in other State laws.

Are there any present-day exceptions in assessmentism? No; so far as the fallacy of the system is concerned, it is present in every company operating under assessment laws. One conspicuous example of a large assessment corporation conducted in more conservative fashion, with integrity and even ability, is frequently pointed as an exception, but in the minds of scientific insurance men the circumstances that are exceptional with this company are not sufficient to save it as an assessment corporation if it continues to operate without modification of its plans.

Assessment companies and their management are not to be uniformly condemned for dishonesty or for willing purpose to deceive the policyholders, for there were many zealous promoters of assessmentism who were carried away by its fallacies, in more or less honest delusion. Of this number there were both those whose institutions went to the natural doom of disintegration or are now plodding along in insurance despair, while an exceptional few who early recognized the limitations and fallacies of assessmentism, have succeeded in reincorporating under old-line laws upon a scientific basis.

Fraternal insurance, like assessmentism, is unguaranteed

inherently and legally, and of necessity must be unguaranteed in the absence of adequate rates and reserve accumulations to permit of guaranteed contracts. Unlike assessmentism, however, the fraternal orders and fraternal beneficiary associations that live up to their name, have a bond of fraternity that lends a force for endurance and an ability to survive adjustment not present in assessmentism. To this general statement there are many exceptions, as some fraternal orders are merely deceitful attempts to practice assessmentism under the easier guise of fraternalism, and are in reality neither an order nor fraternal.

Fraternal societies may be said to be the natural sequence of the "Pass the Hat" contribution plan. Disposition to provide in a way for the dependents of a friend created organizations for this purpose in Funeral Benefit Associations and Beneficiary and Friendly societies. Originally members of these societies contributed upon the death of a member. As the societies evolved, larger concepts of equities were introduced, fixing limits as to the amount of contribution. The only stipulation imposed upon these fraternal orders by law was, and is now in most places, that no death benefit be promised in excess of an amount realizable by one assessment upon all members. The inadequacy of this condition as a criterion of solvency is apparent in its mere statement.

The fraternal orders later amended their plans to include stipulated assessments at various periods, which assessments and dues constituted the premium income, together with the faculty to levy extra assessments when needed. Differences in death rate brought about through differences in age were not properly recognized, and in some cases not recognized at all. The older membership have shown a selfishness to preserve this unfair advantage, and avoid readjustments even at

the cost of final ruin of the order — a condition that has reacted in making the orders that much more unattractive to the young new entrant.

Continued misrepresentation of old-line life insurance as being insurance at excessive cost, and repeated reiteration of the fallacies of "new blood" and lapsation gains, have left the membership indisposed to accept necessary increases in rates to attain permanency of organization. Moreover the salaried officers of many of the orders are in similar position to the former assessment managers, insomuch as they have attained their positions and their emoluments of office through claims of cheaper insurance service which can not endure beyond an adequate increase in insurance cost.

Fraternal insurance has a record behind it in millions of dollars' insurance paid to claimants — a record unfortunately marred in the failure of numerous large orders and the loss of insurance protection to thousands of needy dependents. The future of fraternal insurance appals with its power of disaster. With its eight billion of outstanding insurance it presents in volume ten times the problem of assessmentism, and equals four-sevenths of the business in force with old-line companies, inclusive of industrial business.

The Royal Commission of the Canadian Parliament, in the report on fraternal societies made last year, sums up the situation in the following way:

> In the first place, the insuring of human lives is a business, and can not be successfully carried on by selling the commodity in which it deals at less than cost. In the next place, it is unsound economics to credit part of the price which one customer pays, upon the account of another customer. Upon the application of these two propositions depends the solution of the problem presented by the history of these societies. In so far as they have been selling insurance at less than its real cost, in so far as they have been depleting the provision made by one policyholder for the cost of his insurance

in order to eke out the inadequate provision made by another policy-holder for the cost of his insurance, they have built upon foundations of sand, and the edifice must fall. What does the evidence before the Commission establish in these two respects?

The members of the Independent Order of Foresters, for example, who became members before the change in 1896, mentioned in a former part of the report, remained and still remain members upon the rates of 1881. And the same observation applies to all the other societies whose rates have been so compared.

Even if, therefore, the present schedules of rates in force were in themselves adequate, the practice in the societies still permits the depletion of the early surplus which they provide, to make good the losses occasioned by the insufficiency of the rate which old members pay to cover the cost of carrying their insurance.

This seems to be a condition against which no headway has yet been made in the societies themselves. The old members maintain their ground, being more concerned to keep a firm hold upon their own too-cheap insurance than in the general welfare of the societies at large.

The Canadian report refers to the Independent Order of Foresters because it is the large fraternal order of Canada. This company has its prototype in numerous similar organizations domiciled in the United States, now facing the same general situation. To test the soundness of the contentions advanced by the Supreme Chief Ranger, the Royal Commissioner appointed Actuary Grant of the Canadian Insurance Department to investigate the influence of lapses or cessations in lowering the necessary premium rate, and also the sufficiency of the premiums. Mr. Grant reported that the large proportion of lapses occurred within the first two policy years, and he properly concludes that this does not tend to lessen but to increase the amount necessary to hold in reserve. Actuary Grant made four reserve valuations, the lowest of which — inferentially too low to be reliable — placed the present value of the Independent Order of Foresters' policy obligations, above the present value of

its future assessments or premiums, as nearly $60,000,000, to meet which obligation the society had an adjusted surplus of less than $9,000,000.

The following extract from the *Independent Forester*, the order's own official organ, is illuminating:

> The suggestive warning conveyed in the insurance measure now before the Canadian Parliament makes it the duty of the Supreme Court to undertake at once the solution of the old rates problem.
>
> . . . .
>
> It will, doubtless, be a surprise to many of the old members to learn that they are likely to be called upon to pay extra assessments or higher premiums for the assurance they are carrying, or else have that assurance cut down to a proper relation to the premiums they are paying. They had become so accustomed to the reiterated statement that they would never be called upon to pay any higher rates that their surprise is, perhaps, natural. But if they will only examine the elementary factors in the case — which are very simple — they can have no difficulty in realizing the necessity for readjustment, and that it can not come too soon. Almost any member can calculate for himself what his net premium payments (that is, the premium paid, less five per cent deducted for management expenses), with compound interest at four per cent, will amount to in the years he may reasonably expect to live, or until he becomes seventy years of age. When he has done this, and finds how far short the result is of the sum for which his certificate reads, he will naturally wonder how the deficiency is to be made up; and well he may.

The Modern Woodmen of America, which boasts of defeating the measure for minimum rates according to the National Fraternal Congress Table, received the following report from Major C. W. Hawes, head clerk of the order, in signed statement to the executive counsel, under date of October 15, 1907. Major Hawes reports in part:

> At all events, the National Fraternal Congress Table is emphatically the lowest standard that can be accepted as a basis for rate-making. A lower one would be held to be unsafe by every sane authority, and would not for a moment, in my judgment, be accepted

by any State insurance department having a due regard for the security of its insuring and insurable citizens. Even at that, I seriously question the safety of the table as a measure of costs at the higher ages.

In my last official report submitted to the Milwaukee Head Camp, I submitted a valuation of all insurance outstanding in our society on December 31, 1904. The valuation was made for the purpose of ascertaining our liabilities and measuring them with our income. It was based upon the National Fraternal Congress Table and four per cent interest — the lowest standard table and the very highest interest assumption that any pretense of safety would justify.

That valuation showed that at the close of the year 1904 we had $1,136,678,500 insurance in force; that we were, on the tabular and interest assumptions noted, paying for but $466.069,383 insurance (assuming that we were collecting twelve assessments per year on our present rates), and that $670,609,117 insurance was wholly unprovided for. That is to say, we were paying for but $399 of each $1,000 insurance in force; $601 of each $1,000 being a worthless promise to pay, as far as our future ability to pay was concerned.

According to their own official organ, *The Modern Woodman,* this order fought and defeated the enactment of minimum fraternal rates in the State of New York, proposed in the Volk Bill, offered at Albany in the 1908 session. *The Modern Woodman* comments:

When a little coterie of officers of other societies which can not compete with the Modern Woodmen of America united in putting a foolish resolution through the National Fraternal Congress, they were at first admonished against doing so by the representatives of the Modern Woodmen of America. Then, when they persisted in the attempt to embarrass this society, its representatives told them they could not secure the enactment of their resolution into law in a single State in which Modern Woodmen of America were doing business. They could muster enough votes to pass the resolution, but when they attempted to secure the passage of their law in New York they found that the Modern Woodmen had right for their might, and in the fight the once bold majority ran like whipped curs, and they accepted amendments which made them appear ridiculous in view of the bold stand they had taken at Buffalo.

Withal, the National Fraternal Congress Table is greatly lower than the death rates as given by the American Experience Table, which is the State standard generally adopted for old-line life-insurance companies. As a makeshift for passing to a higher mortality table later, the National Congress Table has more to recommend it than as a measure of the mortality to be expected among the fraternal orders. This is apparent in the report of the actuary on the experience of the Endowment Rank Knights of Pythias, whose mortality experience was analyzed to find that "The experienced mortality is shown to be 85.53 per cent of the expected by the American Experience Table of Mortality, and 109.35 per cent of the expected by the National Fraternal Congress Table."

The National Convention of State Insurance Commissioners at its meeting in Washington in 1906, heard a report from its committee on fraternal insurance, recommending that minimum rates be based upon the American Experience Table of Mortality, with interest at the rate of four per cent. The report pointed out that —

> By far the greater part of the assets of the old-line companies represent reserve, that is, the amounts paid by the policyholders during the early life of the policy, to provide for the deficiency of these same policyholders' payments when they shall have reached a more advanced age. The fraternal societies, with about four-fifths insurance in force as the old-line companies, have as total assets less than the policy claims for a single year. This condition is an alarming one to any friend of fraternal insurance, and should be of peculiar interest to every member of these societies and to every official whose duty it is to supervise them.

The commissioners voted this recommendation:

> We urge the enactment of laws providing as follows:
>
> 1. No society shall be organized in or admitted to any State

after July 1, 1907, that does not collect adequate rates, according to the above-mentionel standard.

2. All societies doing business in any State should collect adequate rates from new members admitted after January 1, 1909.

3. Members paying inadequate rates should be placed in a class by themselves, but should be permitted to transfer to the adequate rate class, at attained ages, without expense or medical examination, within two years, and the funds of the two classes should be kept separate.

The history of the Royal Arcanum illustrates the difficulty of making a successful adjustment of rates in an order that has achieved popularity by misrepresenting the cost of insurance. While the rates adopted in 1905 were not excessive, in fact so low that further adjustment will probably be necessary before long, the order has none the less lost prestige and membership from that date. The three hundred and five thousand members which it had on December 31, 1904, instead of preserving the ratio of increase, have fallen steadily away to a showing of two hundred and forty thousand on December 31, 1907.

Until the public realizes that there is no magic in the words "assessmentism" and "fraternalism" by which insurance results can be conjured into being, not attainable upon applied scientific principles, assessmentism and fraternalism will continue to take money for the most worthless of all considerations — for insurance that does not insure. The very name "insurance" implies, if anything, security and certainty, and when an order or a corporation fails to measure up to a standard that insures future security, its payment of death claims for a few years is but the paltry bait that serves ultimately to fleece credulous patrons.

The difficulty of obtaining legislative correction is chargeable to the enormous political power which these fraternals are able to swing. An amazing condition is that a

so-called "fraternal" — a fraternal that is fraternal in name only, and worse than unfraternal in lack of equity and abuse of confidence of its members — can yet inspire a feeling of loyalty to the order which will cause its members to act in its name against their own interest.

There are, of course, real fraternal orders, and these orders have done, in common with those that are less fraternal and decidedly reprehensible, enormous good in the payment of claims to worthy beneficiaries. It is not necessary to lay down a rule for gauging the fraternal spirit of an order. Any member of a fraternal order knows himself how much the lodge work amounts to, how much fraternal element there is in the order, and how much remains of a pure assessment life-insurance proposition. In lack of a brotherhood that would give force to the original "Pass the Hat" idea of fraternalism, no fraternal order not maintaining scientific reserves and charging premium rates adequate for so doing can be said to be secure. In ratio as this spirit dwindles, the orders approach assessmentism pure and simple, with all its unblushing blunders and fatal fallacies.

Members of fraternals which exist because of real fraternity, where the insurance departments are only incidentally associated with the order, or else wholly disassociated, should jealously guard the good name of their order from assessment-insurance prostitution. Unworthy assessmentism has too often gratuitously used such honored names as Masonic, Pythian and Odd Fellows as pennants to float above their unseaworthy craft.

Apropos of this thought William C. Swain, Grand Master Mason of Wisconsin, remarks of Masonic insurance:

Masonry is older than any insurance, and a society unique in itself, outside of any business organization. Life insurance is an

established business, and there is no more reason for Masons engaging in it than for them to engage in manufacturing or any other business.

A consideration of these three systems of life insurance must result in increased appreciation of the necessities of insurance that has piled up the volume of contracts issued in its name, and particularly emphasize the soundness of old-line life insurance. Insurance is not a matter of to-day or to-morrow, but it is a matter of death, which, while it may occur either to-day or to-morrow, mercifully may be deferred to the distant future. The business of life insurance is to pay claims when they occur, without limitation as to when this time will be.

In this purpose the present old-line life-insurance companies have received premiums since organization amounting to $6,306,950,440; as an account of their stewardship these companies have paid back to policyholders in claims, dividends, surrender values and otherwise, $3,941,157,153, and hold in present assets for the protection of policyholders, and in reserves that insure the future of their contract, $2,669,-153,593, making a total of $6,610,310,746. This actually means that old-line companies have paid to policyholders, and hold to their credit, more than $300,000,000 in excess of the premiums received, which, giving answer for the efficiency and economy of old-line life insurance, establishes it as the most stable financial institution in the world's affairs.

Assessmentism has failed to give an excuse for its existence. Comparisons with old-line life insurance conjured up to furnish this excuse are disproven by fact and history. Law to prevent the further plunder of the public in the formation of new assessment companies is an urgent necessity. Laws should be enacted where necessary to permit the reorganization of present assessment companies on old-line

UNIV. OF CALIFORNIA

plans, and where these companies fail to take advantage of such laws they should be subjected to other enactments compelling rigorous supervision and the levying of assessments from time to time that appear necessary to the interest of the "last man."

Political difficulties in enacting proper laws to regulate fraternal beneficiary orders should be overcome by the members of these orders themselves. It is to the distinct disadvantage of these orders that the laws on the statute books of the various States, though calling for rigorous supervision of old-line life insurance, fail to compel proper rating and accumulation of credits and reserves among the fraternal orders. As the laws stand to-day in many States, a fraternal order can and must be admitted by the mere payments of a small fee. Here State supervision practically ends.

In life insurance, whether old-line life insurance, fraternal insurance or assessment insurance, two and two make no more than four, and that the system that proposes to increase the sum of these co-equal factors by means of a safety or emergency clause is unsound by confession.

Historic reference during the past generation to the magnificent record of the old-line companies in moneys paid and moneys accumulated, to lack of failure, in a generation of any company operating continuously on the old-line plan, causes the three systems of life insurance to simmer down to one. Old-line life insurance is entitled to the best that the word "system" can be made to convey; assessmentism has merited a sentence of legal death; and fraternalism a suspended sentence, leaving it to-day on uncertain parole.

UNIV. OF CALIFORNIA

CHAPTER VII.

SCIENCE AND HUMAN LIFE.

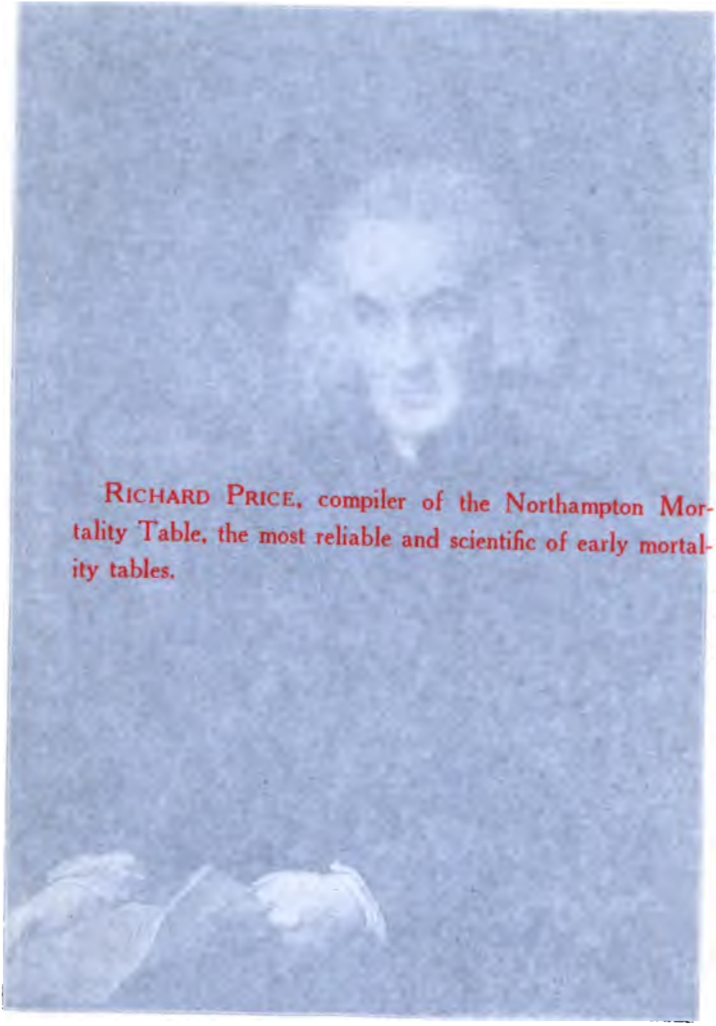
RUSKIN well said that "the work of science is to substitute facts for appearances and demonstrations for impressions." Life insurance, by this Ruskinian dictum, can claim yeoman's service in a department of science of first interest to us all, the statistical study of human life.

Possibly in no other department of scientic investigation are impressions and appearances more deceptive, or productive of more mistaken deductions, than in the study of vital statistics and problems of human life.

How many, for instance, who have heard the interlocutor at the minstrel show repeat his perennial query, "Do married men live longer than single men?" and received the end-man's flippant response, "No, it only seems longer!" understand that here is propounded an actuarial question of scientific import, susceptible of statistical reply, which upon analysis displays the layman prone to mistake cause and effect.

Answering yes to this question, which in all seriousness can be assumed to be the case statistically, the deduction reached by the actuarial unschooled will be that married life and the marriage relation is conducive to longevity. Whether this is the case or not, or whether or no the marital relation properly fulfilled is more conducive to longevity than the continence of the celibate, remains statistically unproven. Independent of all other causes, married men should live longer than single because of the strong element

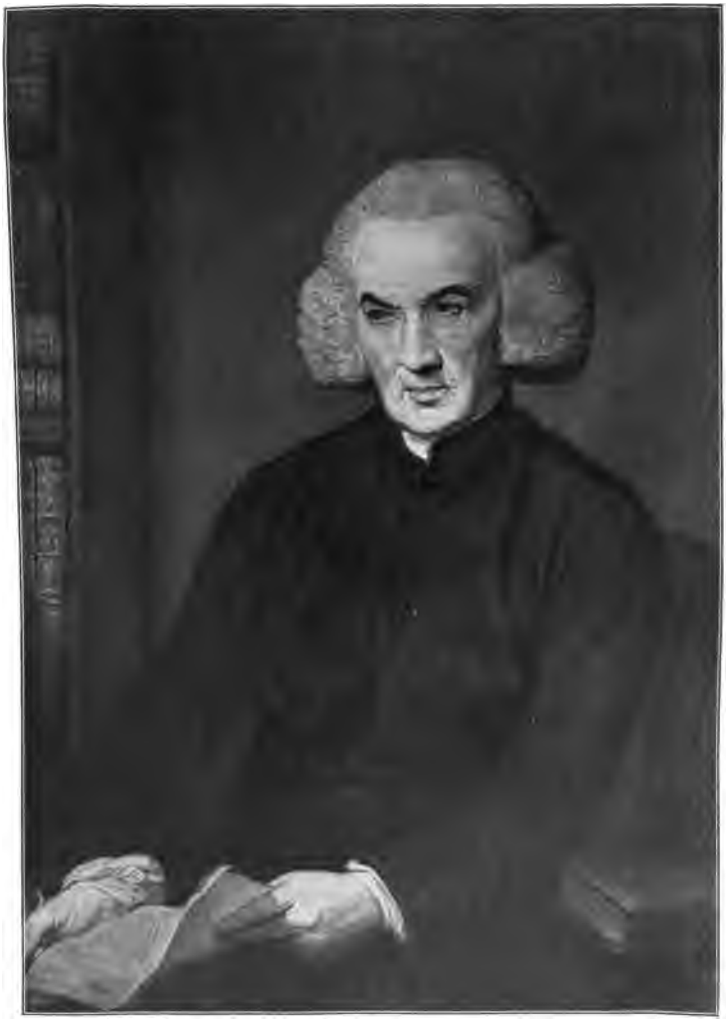
UNIV. OF
CALIFORNIA



RICHARD PRICE, compiler of the Northampton Mortality Table, the most reliable and scientific of early mortality tables.

DR. RICHARD PRICE.

UNIV. OF
CALIFORNIA



DR. RICHARD PRICE.

of
dis
in
fit
Ar
no
bu
ica

la
ri
m
fu
ke
el
th
ar

w
b
p
s
s
d
r
h

of selection which deters the weakling, the infirm and the diseased from marriage, though matrimonially inclined, and in itself accounts for a subdivision along lines of physical fitness that makes for longer life in the married man. Analogously, policemen will show marked signs of longevity, not because their vocation is healthful or lacking in hazard, but because of their selection by condition of superior physical fitness.

If the hope of those who are laboring now for marriage laws that would more or less rigidly refuse licensed marriage relation where a condition or taint of physical or mental disqualification exists is realized, it would serve to further increase the relative longevity of married men by keeping in the ranks of the single not only those of the unfit eliminated by self-selection, but adding as well a quota from that large class now indulging in matrimony to the injury and misery of the human race.

To get a truer concept of the labors of actuarial science, which is incidentally doing much for the cause of mankind beyond promoting the business of life insurance, view this problem in another light, and uncover another popular illusion. If the relative longevity of the married man and the single man was determined by an examination of ages at death, it would at once be seen that the age at death of the married man would be greater than that of the single man because of the average age at which a man enters into marriage. A man of sixty, for instance, has a much better chance of attaining age sixty-five than the general population under sixty, which would average about half that age; and in exactly the same way the married man's age at death will be greater, not as a necessary consequence of lower mortality, but simply because he only comes under observation after he has reached the mature years of wedlock.

Again, British peers attain by heritage a rank which of necessity must come to them at maturer years, with the result that their ages at death will average higher than the ages at death of the general population, just as the average age of the living peerage would to-day average higher than the average age of the living population. For this reason no conclusions based on ages at death, or even average age of the men living in any profession or business, can be used as a criterion without giving full weight to the ages upon which these men enter their different vocations.

Variations in mortality because of habitat, occupation, race, sex and so forth, are all incidental in the study of human life to the underlying law of mortality, and any system that attempts to make comparisons without recognizing a law of mortality that takes into full account the relationship of age upon the death rates must of necessity fall into error.

While the lifetime of any individual is a most uncertain event, the number of deaths that will occur among huge aggregations of individuals of the same age can be predicted with approximate accuracy. It is therefore possible to build up a mortality table from a large number of observations, showing with great fidelity the probable number of deaths at the different ages. Tables of this sort have been faithfully compiled for life-insurance purposes from life-insurance risks, to supply a standard for life-insurance calculations and a basis for measuring mortality among selected lives.

Census reports and general population statistics, when supplemented by statistics of death, supply tables for measuring the mortality of the general population. Tables computed from the statistics of life-insurance companies naturally show lower death rates, because these lives have been

selected by medical examination to include only the better class. Life-insurance tables portray more faithfully the mortality among selected lives than do census tables for the general population, because of the loss of accuracy in the cruder methods and less authentic information of the census gatherers.

All investigations of sufficient volume to be reliable develop tables that bring out the minimum of mortality to be between the ages of ten and twelve, which minimum is reached by a gradual decrease in the mortality from birth, and from which minimum the mortality rate gradually increases through adult life.

From a reliable table of mortality adapted to the circumstances, it is therefore possible to foretell with great fidelity the number of people to die at the different ages, from a large number born alive. Thus, by the American Experience Table of Mortality, out of 143,819 live births 22,249 die the first year, a death rate of 15.47 per 1,000. Deducting the number that die the first year from the number born, there remain at the beginning of the second year 121,570 lives, of whom 7,719 will die before the end of the second year, making a death rate of 6.35 per 1,000. Deducting each year the number that die during that year from the number alive at the beginning of the year, gives the number remaining alive at the next succeeding age, and must ultimately bring the mortality table to a conclusion. It is convenient to close a mortality table within reasonable limits, and with the American Experience Table age ninety-five is fixed arbitrarily as such limit.

The number of deaths per 1,000 lives exposed at quinquennial ages, starting from the minimum mortality at age ten, are, according to the American Experience Table:

Age.		Age.	
10	7.49	50	13.78
15	7.63	55	18.57
20	7.81	60	26.69
25	8.07	65	40.13
30	8.43	70	61.99
35	8.95	75	94.37
40	9.79	80	144.46
45	11.16	85	235.55

General population mortality would, of course, include diseased and impaired lives, and give death rates appreciably higher. No two mortality experiences, even on the same class of lives, would show exactly the same death rates, and when the lives are differently circumstanced as regards race, occupation, nativity or residence, the rates would vary more or less radically. Among the general population a segregation of the whites from the negroes would show the negro death rate to be greatly in excess of the whites, nearly twice as great at the infantile and younger ages, and much greater throughout than the white mortality.

Underneath all properly compiled tables, however, looms out a basic trend of mortality which follows more or less closely the gradation shown in the American Experience Mortality Table. Just as the little pebble and the huge boulder fall in accordance with the same law of gravitation, though with striking forces that differ with their mass, so does there appear a great underlying law of mortality which, if not expressible with the mathematical precision of the law of gravitation, is none the less well defined. Perhaps the most dramatic and even the most uncanny delves in the whole field of science has been the search for a law of mortality as mathematically absolute as those governing the great natural forces of gravity, light and sound.

A scientist named Demoivre, in 1725, published the first

mathematical mortality hypothesis in the dictum that "We may consider that whatever be that law which is observed by nature in the perpetual decrements of human life, that law must, conformably to all the other laws of nature, be such as to proceed regularly at least for some short intervals of time." Demoivre applied this law over the interval from age twelve to age eighty-six, by assuming that of seventy-four persons alive at age twelve one would die each year, the number living at age thirteen therefore being seventy-three, at age fourteen seventy-two, and at age eighty-five one, the last survivor, who would die during the last year. The number of lives exposed each year would therefore be reduced by one, and the probability of dying consequently increased. Thus the probability of dying at age twelve was one out of seventy-four or 1¾ per cent, whereas the probability of dying at age eighty-five, when there was only one alive, was one out of one, or one hundred per cent.

Demoivre's hypothesis assumed a law of mortality, and not an unalterable table of mortality. The same law applied under different circumstances will produce different results. Demoivre's law was a law of equal decrements of human life, and by selecting a different number of lives or a different age to start with, or a different decrement than one, or a different span of years than seventy-four, the resultant mortality rates would differ though the law remains constant.

In searching for a law of mortality, the investigators did not assume at any time fixed rates of mortality, realizing that a change of circumstances would produce changes in the mortality, but not such changes as would not follow, as they hoped, the basic law, and thus be displayed in mathematical expression of the same form.

The work of Demoivre became a matter of later study to

Benjamin Gompertz, a member of the Royal Society. He scientifically analyzed the causes of death to be: first, " Chance, without previous disposition to death or deterioration," for which the intensity of mortality may be said to be constant; secondly, deterioration or increased inability to withstand destruction by assuming " the average exhaustion of a man's power to avoid death to be such that at the end of equal infinitely small intervals of time he lost equal portions of his remaining power to oppose destruction, which he had at the commencement of these intervals," for which secondary cause the intensity of mortality increases in geometrical progression.

While Gompertz divided the causes of mortality into two classes, yet in composing his formula he included factors that covered only the second cause, and assumed that the force of mortality increased in geometrical progression. Makeham, a later student of the subject, corrected this omission in Gompertz' formula, and afterward elaborated the mathematical formula for obtaining the force of mortality by adding to the geometrical progression which represented the deterioration or increased inability to withstand destruction, which follows in adults from increase in age, a constant to represent the first cause of death enumerated by Gompertz, namely, that death may be the consequence of chance without previous disposition to death or deterioration.

The mathematical application of Makeham's law of mortality is too intricate for popular description. It is sufficient to state that just as Demoivre's mathematical law of equal decrements may be made to represent with rough accuracy, within a limited span of life, the mortality rates compiled from observations by supplying suitable factors of decrement, so can Makeham's formula be applied, using factors

deduced from observations, to reproduce a mathematical table, the rates of mortality of which will closely approximate at the different ages the mortality shown in the original data, and at the same time offer innumerable advantages in calculation through following a mathematical law. Some experiences, however, do not appear to lend themselves to mathematical reproduction in mortality tables, that will follow with sufficient accuracy the original observations. All mathematical efforts have failed to reproduce directly with sufficient fidelity mortality rates at the ages of extreme youth and old age.

Actuary Arthur Hunter has Makehamized the American Experience Table by application of Makeham's mathematical law of mortality, to reproduce closely the death rates of the original table. His success lies in the great skill he used in experimenting for "factors" from the original table, and the further fact that this table was already "graduated" to remove incidental fluctuations brought about by the limited number of observations in the original data.

With a table of mortality that portrays with sufficient accuracy death rates at the various ages, not only is there unfolded a basic law of mortality and a true criterion for measuring longevity, but at the same time a basis is obtained from which probabilities of life and death can be converted into the monetary equivalents of life-insurance calculations. Here life insurance calls into being the mathematical doctrine of probabilities, by means of which the chances of death at the different ages are equated into premiums, according to the amount and kind of contingency covered in the policy.

The doctrine of probabilities is traced back to the famous Abbé Pascal, who, it is related, worked his first problems at the importunement of a French gambler who

wished to know the mathematical margins in a game of chance. Abbé Pascal's investigations into the theory of probabilities blazed the way for the labors of the great French mathematician Laplace, who reduced the most abstruse and contingent probabilities to definite mathematical expression. The computation of premium and annuity rates of varying character and description, involving chances of life and death throughout the limits of the mortality table, are computed with absolute exactness. These computations, however, are on the basis of large aggregates, and upon this basis are mathematically exact, assuming the correctness of the mortality table. Upon any individual basis all calculations fail, as the doctrine of probabilities and the law of mortality call for large averages.

It is therefore particularly meaningless for a man to talk of his individual "expectation of life." This much-abused expression, "expectation of life," means the average after-lifetime of a large aggregate of persons of the same age. It does not mean the number of years that one may expect to live, because in accordance with the mortality table every man may expect to live any number of years to the table limit. Both the mortality table and the doctrine of probabilities accord him a chance of living to the end of the table, exactly as he is accorded commensurate chance of dying during the current year. Moreover, the expectation of life, being the average after-lifetime of all those alive at the same age, changes each year. At age thirty the expectation of life by the American Experience Table is 35.33, whereas ten years later at age forty it is 28.18, only about seven years less. Twenty years later at age fifty, the expectation of life is 20.91, less than fifteen years under that at age thirty.

Another popular error in using the phrase, "expectation of life," is to add the same to the age to find the most prob-

able year of death. Adding the expectation to the age at thirty would give an age at death of 65.33 years. It would be fallacious for a person thirty years of age to conclude that his probable age at death would be 65.33, as the most probable year of death may be said to be the year ahead in which the most deaths will occur. Again referring to the American Experience Mortality Table, this is seen to be age seventy-three, in which the number of deaths on the basis of 100,000 living at age ten, is 2,505. Accordingly the most probable age at death for all under seventy-three is age seventy-three, and for all over seventy-three is their current age, as from that age on the death rate is so heavy that the actual number of deaths reduces through the radical reduction in the number living, and consequently exposed to death. At age ninety-four the number of deaths are only eighteen, because there are only twenty-one survivors to that age, and the number of deaths at age ninety-five are only three, because with the death of eighteen out of twenty-one at ninety-four, only three remain to the limiting age. It is well to restate here that the mortality at the last few ages may be said to be a mortality of convenience, for the purpose of terminating the table within workable limits.

Rigidly speaking, all probabilities of life merely reduce themselves within the possibilities of deferring death, death being the inevitable conclusion of life and a mathematical certainty within the limits of the mortality table.

Heroic as sounds the expression, "to give up one's life" for one's country, and heroic as is the deed of giving up that which is incomparably man's greatest human possession, yet in scientific analysis it is a surrender of an uncertain tenure of existence whose ultimate end is death. Risks of peace are only less in degree than the risks of war — a fact vividly portrayed in the following table prepared for the *Pelican,*

the official organ of a progressive American life-insurance company:

Battle.	Death rate per 1,000.	Equivalent risk in life — age.
First Bull Run	40.7	26 to 31
Shiloh	42.2	30 to 35
Seven Pines	25.1	48 to 50
Seven Days	27.1	36 to 39
Second Bull Run	45.4	35 to 40
Antietam	39.7	40 to 44
Perryville	25.6	32 to 35
Fredericksburg	18.1	55 to 56
Chancellorsville	20.3	42 to 44
Gettysburg	55.5	49 to 52
Vicksburg	42.0	42 to 46
Stone's River	50.0	47 to 51
Chickamauga	47.6	23 to 29
Chattanooga	20.5	42 to 44
Wilderness	31.2	42 to 45
Spottsylvania	44.3	33 to 38
Cold Harbor	33.0	28 to 32
Atlanta	59.2	39 to 45
Winchester	26.9	35 to 38
Cedar Creek	27.9	37 to 40
Nashville	14.8	52 to 53

Probably the average layman will be surprised to learn that the mortality among the participants in even the most bloody battles of the Civil War could be measured by a limited space in the lifetime of the average selected risk.

Some few life-insurance companies at this time accept officers of the army and navy without provisions for extra premiums in the time of war, and without restrictions or penalty of any kind in either peace or war. One large life-insurance company which ordinarily demands extra premiums for war hazards, offered to insure a class of cadets recently graduated from West Point, provided a certain large quota of the whole would apply, and actually did

insure this quota absolutely without restrictions as to military or naval service. The company argued that in getting a large quota it maintained an average, and that the physical fitness of these cadets, who passed the medical examination without exception, was a counterbalancing offset to any increase of risk through occupation hazard. Usually, however, in America, life-insurance policies are written to provide an extra premium in event of military or naval service in time of actual war.

Life-insurance statistics upon occupations, in only exceptional cases are of such marked character or such large quantity of data that true conclusions can be drawn as to the relative longevity of those engaged in the different vocations, after making due allowance for the mitigating circumstances of being otherwise above the average risk, which is usually the requirement from applicants in occupations likely to show unfavorably. Certain classes, however, such as the clergy, for extreme low mortality, and those engaged in the sale and manufacture of intoxicants, for high mortality, show results that justify absolute conclusions. For example, the mortality of Presbyterian clergymen has been exhaustively investigated both in America and in Scotland, where the unanimity of result justifies the most absolute statement as to the low mortality of Presbyterian clergymen.

A correct measurement of the mortality in the different classes of the general population calls for a degree of census accuracy and thoroughness not yet attained, certainly not in American census-taking. The same statement qualifies in more or less degree all other tables of the United States Census Bureau. S. N. D. North, the able director of the census, who is laboring valiantly for efficient and effective census-taking, admits and deplores the lack of thoroughness of the present system.

Only by a succession of census comparisons, all of which are equally dependable, can confirmation be had upon crucial questions of vital statistics. There seems a general willingness to believe that modern hygiene, sanitation, medicine and surgery has effected increase in human longevity throughout that portion of the civilized world that enjoys such improvements. Unfortunately there is not reliable data of previous censuses to confirm the theory or give support to this deduction, plausible as it appears. Much of the heralded advances undoubtedly serve only to prolong the life of the young weakling, who must eventually succumb with a gift of a few increased years or days. If adult longevity has increased appreciably under the strain of latter-day nervous activity, particularly in America, it remains to be statistically established.

In those cities and States comprising the registration area, where superior accuracy exists in matters of vital statistics, the negro death rate is 29.6 per 1,000 population against a white death rate of 17.3, which includes both the foreign and native whites, the native whites having the lower death rate of 16.6 and the foreign whites of 19.4.

Another branch of vital statistics of general interest deals with the relative longevity of the sexes. It is generally accepted that women as a whole, and certainly for the mature and elderly ages, have the lower death rate. Inaccuracies in both the population and death returns of the census, and particularly in the disposition of women to understate their ages, prohibit absolute conclusions from census tables.

Despite the fact of greater relative longevity in women, women have not been considered as desirable for life-insurance risks as men. The reasons of this are borne out in the experience of the companies, where women as insurants

have usually shown heavier mortality than men, whereas the women annuitants have shown better than men. This has been accounted for by three undoubted conditions: first, that the woman is less rigidly examined than the man, because of feelings of false delicacy which are too often present both in the subject and the examiner, and not infrequently in one or the other; secondly, women are charged with obtuse appreciation of commercial ethics by which they distort answers or withhold facts in their applications, to a greater extent than men; and lastly, in that sixth sense of a woman, intuition, by which she seems more accurately to judge her own chance of longevity, and be governed accordingly in taking insurance or an annuity than is the case with a man.

This element of self-selection in women is not wholly absent in the man, as the experience of both men and women on endowment forms of insurance, where the premium is higher and there are large benefits of survivorship, shows distinctly lower mortality than that experienced on the lower-priced insurance covering pure death protection. In the industrial classes, where the feeling of exaggerated delicacy is less, and the amount of the policy much smaller, with corresponding decrease in ability or desire to misrepresent, female mortality shows appreciably lower than that of the males.

The insurance of women is becoming much more general, as women are more and more taking places in the business world, and assuming increased responsibilities. It is the custom with American life-insurance companies to insure women upon the same terms as men, although some companies still exclude women, or issue them policies only upon payment of extra premium.

The extra premium in life insurance is in the way of equalizing conditions not covered by the general mortality

table. In later years, a nicer analysis of extra hazards has enabled the companies to go further and accept many classes of risks that are substandard in some one or more respects. The law of mortality and the doctrine of probability are accordingly supplemented with a judgment more or less arbitrary, but designed to fit the facts.

Overweights and underweights, for instance, present hazards at times which can be successfully reconciled by varying the plan of insurance proposed. A young man excessively overweight might be judged a standard risk in respect to other details in his application, for a certain number of years, and accordingly be safely insured as a standard risk on a form of policy that would terminate at the expiry of these years or before the tendencies to overweight would add a hazard not contemplated in the mortality table. In a case of this description a company would be safe in issuing an endowment policy of twenty years or shorter, where the hazard is not likely to become aggravated until that time. The overweight would thus obtain a policy on exactly the same terms as a standard risk, upon a plan that was mutually acceptable.

A system in considerable vogue where the extra hazard is likely to occur at once and carry to diminishing extent for a number of years, is that of charging a lien against the contract, reducing from year to year, thereby increasing the insurance until it eventually reaches the full face value. It is argued in such cases that the applicant is but expressing a belief in his personal longevity by accepting a lien penalty against his policy in reducing amount during the first years of its existence, to coöperate with the company in covering the extra hazard. If the man lives, his judgment of himself, which is probably favorable, is vindicated, and he has insurance without penalty and without extra premium in the

interim, whereas if he dies, the returns from the life insurance, even after deducting the maximum lien from the face of the policy, make a most profitable investment.

Statutory abolition of the misused deferred-dividend system has unthinkingly and unfortunately removed the possibility for grading lives into separate dividend classes according to their mortality. This plan was the exceedingly simple one of charging no extra premium or penalty, but keeping each class's dividend account separately, and charging them separately with their mortality. In the absence of this method of making adjustment, which could be applied to the less hazardous of the substandard risks, some companies are using a system of rating up ages. An extra hazard is here covered by an addition to the age, which means an addition to the premium and hence to the cost of the insurance, a system which has been in vogue in England for years, but one that does not work out with the same nicety as the other systems enumerated.

Too often men and women are stayed from making application for life insurance through fear of rejection. Frequently this fear is fanciful, based on some item which is separately unimportant, such as their own misjudgment of their variation from standard weights or of the rapidity of their pulse, or of the fear of heart, lung or kidney impairment which may have little or no influence on insurability. Deaths in a family from various causes, and particularly from tuberculosis, are, unfortunately, not an infrequent deterrent from making application. Nor need a man who has been rejected hesitate to apply again, frankly giving details of his rejection where he considers the rejection not justifiable, or in any case renewing application after a number of years have expired.

One important American company insured all persons

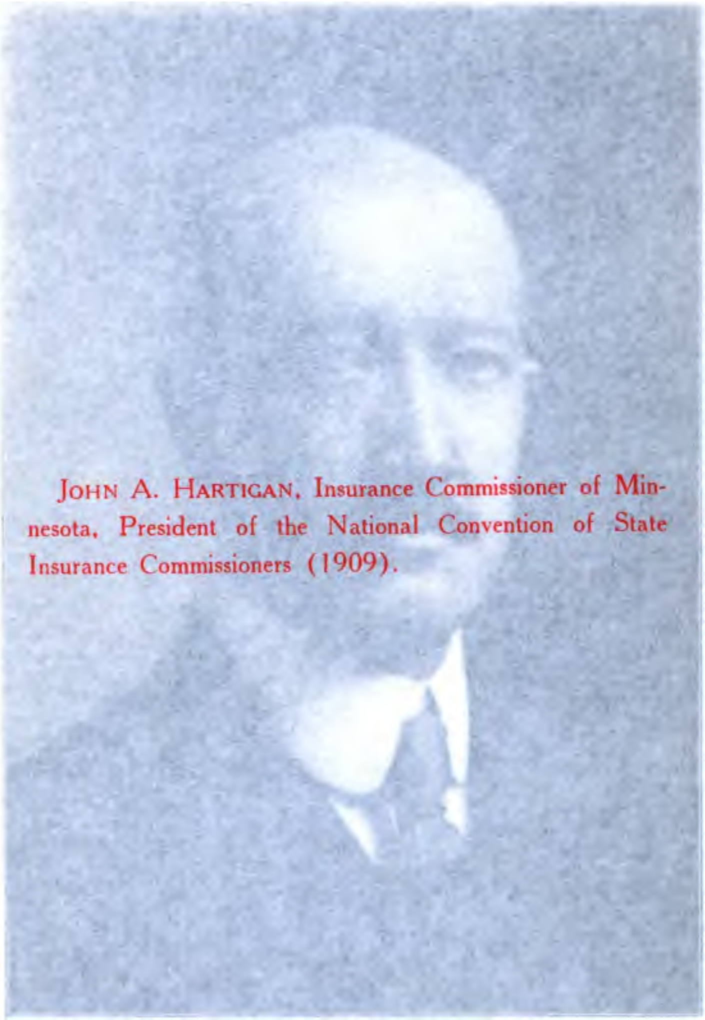
excepting those actually sick, drunkards and cases involving moral hazard. In order to do this, the basic science of life insurance, as found in the law of mortality and the doctrine of probability, was at times heroically supplemented by statistical delving and measuring by the medical director and the actuary. In fact, in the particular company under discussion, a series of dividend classes was arranged during the days of the tontine dividend, and an elaborate system of liens, adjustable in their amount and in the manner of reduction, and the plan of insurance upon which they operated, was brought into account, supplementing the mortality table with prognostic accuracy.

The service of bringing life insurance by scientific measurement of risks to all classes, including many gradations of substandard risks, who perhaps need life insurance more than other classes, is the final achievement of scientific research in commercial dealing with human life.

UNIV. OF
CALIFORNIA

UNIV. OF
CALIFORNIA

JOHN A. HARTIGAN.



JOHN A. HARTIGAN, Insurance Commissioner of Minnesota, President of the National Convention of State Insurance Commissioners (1909).

CHAPTER VIII.

LIFE-INSURANCE SUPERVISION.

AT the meeting of insurance commissioners of the several States in national convention at Detroit, in August, 1908, Hon. Reau E. Folk, Insurance Commissioner of Tennessee, and president of the convention, told a story of a southern darky that illustrates the things to avoid in life-insurance supervision and legislation.

According to Mr. Folk, this old Texas darky, known as the "cow doctor," was called in to minister to a sick cow. Questioned later by the owner of the cow as to how the animal was getting along under his treatment, he replied:

"Boss, she is well of the disease, but I b'lieve she's gwine ter die of the treatment."

Life insurance is supervised by the State in bureaus or departments which at the same time have supervision over all other branches of insurance. These bureaus are commonly the collectors of revenue from insurance in the form of taxation, licenses and department fees, and become the especial interpreters of the life-insurance laws and a power in recommending and passing these laws.

So far as possible, in briefly treating the topic of life-insurance supervision, all forms of insurance other than life will here be excluded from consideration.

As constituted at present the insurance departments of the various States are enabled to render large service to policyholders and the inquiring public in matters of insurance. These departments have in their files, and otherwise available, information found helpful and reassuring to

inquiring policyholders. True, the same information could be obtained in most cases direct from any reputable life-insurance company, but inquiries from the State department often assuage doubts not easily removed in even the frankest replies from company officials. Increased recourse to the insurance departments upon matters now too frequently turned over to attorneys at needless expense to the policyholders, would greatly enhance the value of the State departments to the public and the policyholder.

Beyond this usefulness, which requires little more than the functions of an attorney on the part of the insurance commissioner, or the use of his power of magistracy, the insurance departments are charged with the obligation to pass upon the solvency of all insurance corporations operating within the confines of the State, introducing conditions of State supervision where fulfillment can not be expected to equal requirement, and where if it could, an economic loss would be entailed in duplicating in each of the several States work that might properly be done in any one.

When the State creates an artificial individual by giving corporate existence to a life-insurance company, it becomes its duty to supervise its acts, and it is the right of all having dealings with an artificial creature of the State to demand its proper regulation through proper supervision.

There are forty-six States in the American Union to-day, and a number of territories. Each of these States can and does undertake, to greater or less extent, the supervision of all life-insurance companies operating within its separate borders. The operations of life insurance in the territories, insular possessions, and the District of Columbia are under the control of the federal government. Within the sovereign States themselves, and in interstate transactions between the sovereign States, the federal government has no jurisdiction.

More than this, the sovereignty of the individual State in absolute right to dictate and legislate for all life-insurance companies operating within its borders is emphasized by statutes adopted in many States to cancel the license of a life-insurance company that has recourse to the federal courts in litigation with citizens of the State.

Life insurance is therefore not supervised by any one thoroughly equipped and centralized bureau, such as would be possible if its transactions were construed as commerce, and thus brought under the supervision of the National Congress, which has constitutional control of the transactions of interstate commerce. Nor is there in any one State an insurance department sufficiently well equipped to supervise in actuality all insurance companies operating within its State lines. There are not a great many States that can rightfully boast of ability to supervise efficiently their own corporations in the sense of being able to make periodic examinations and valuations of all the home companies in a manner that would merit general credence and acceptance from other well-equipped insurance departments.

Life insurance in America pays for supervision by forty or more different bodies, and receives complete and thorough supervision from none. Part of this money is paid to politicians pure and simple, whose qualifications for the insurance commissionership are summed up in ability to be elected or appointed to a State office calling for the insurance commissioner's emoluments. This State office goes too often as a political prize. The job might as well have been the supervision of any other business or industry based on scientific principles about which the politician was utterly ignorant. In the same way the deputyships and the larger salaried positions of the office frequently go in turn as political rewards. The money that goes thus to reward politicians

who do not pretend to execute competently the tasks of insurance supervision is policyholders' money thrown away, or even worse. The worse comes in when these politicians attempt unwarranted dictation in affairs of company management, or compel useless examination of life-insurance companies by themselves or men not competent to do more than hamper the work of the office upon which they inflict themselves to their individual profit and the policyholders' loss.

While life insurance has not been lacking in dishonest, culpable and inefficient company executives, whose well-aired offenses have injured the business, ignorant and prejudiced public officials have done quite as much injury to the policyholders, and have imposed infinitely more unnecessary expense.

Many commissioners who have come into office through the usual political channels, without previous knowledge of life insurance, have applied themselves assiduously to the duties of their office, to the great advantage of the policyholders of their State and to the furtherance of the cause of life insurance. In yet other States, where the office is not bandied from term to term, or with even a change in dominant political party, State departments have grown up efficient and well-managed, and State commissioners have developed into forcible advocates of the policyholders' interests and of the cause of insurance.

Without doubt the personnel of the insurance commissioners, both as to personal integrity and official capacity, has been greatly advanced within the last ten years, and is to-day higher than ever before. Considering, however, the enormous cost to life insurance of present supervision, and the few State departments in the country equal to passing authoritatively on the practices and standing of even the

limited number of life-insurance companies chartered by their State, the cause of proper supervision remains an economic problem of large proportions.

It is a problem of the public that benefits as a public through the economic operations of life insurance, almost as intimately and keenly as it is a problem of the policyholders themselves, constituting the units of the great life-insurance system.

Life-insurance companies are but an aggregation of these policyholder units, a fact that has never been properly appreciated, and that can not be too strongly emphasized. Any system of supervision that hampers the operation of life insurance, or unduly restricts its expansion and development, is an injury to the policyholders who constitute the companies, an injury that reaches down in their pockets, filching money equivalents no less real than the dollars and cents directly mulcted in departmental fees and licenses that not only support useless duplication of departments but, beyond this, contribute uncontemplated profits to the State.

With all its sins, insurance supervision might be claimed to justify itself in the magnificent security which surrounds life insurance, were it not that this scrutiny and security could have been effected more economically and efficiently. It is a duty of the future to see that it is. It is the gratifying condition of the present that the trend of events is in such direction, showing insurance commissioners and State officials rising above personal and political considerations, to condemn almost unanimously the present excessive taxation of insurance, and exactions of excessive fees beyond departmental necessities, and above all in forwarding a concert of action to supplant multiple individual action with its consequent inharmony and wasteful expense.

The Insurance Commissioners' National Convention is

itself a great achievement for unity and centralization. This convention was drawn together years ago by the necessity for some uniformity in the annual statement blanks required from the insurance companies. While every life-insurance company in America to-day must submit annual statements to every State or territory in which it operates, fortunately, through the effort of this national convention of State officials, the statements are for the most part made upon the same form, requiring the same detail.

Again, during the turbulent days of the Equitable controversy in 1905, when a general distrust of life insurance was foisted by the press, and insurance departments of the various States felt that events served to discredit the then constituted New York Insurance Department, Commissioner Folk, of Tennessee, to relieve the feeling of uncertainty through the country, and to prevent multiple and expensive examinations by the different States, suggested a plan of joint action by a committee of western States. This committee, comprising five of the ablest and best-known insurance commissioners in the South and West, secured the services of experts in whom they had confidence, and undertook what has probably been the most thorough examination of a large life-insurance company ever made, covering the operations of the company both at home and abroad.

During the progress of this examination, a striking illustration was supplied of the absurdities in State supervision, not uncommonly viewed in company management. A typical backwoods politician, parading for the time being as insurance commissioner for one of the southwestern States, appeared in New York at the office of the company under examination, stating that he was there to conduct personally an examination that would reassure the people of his State about the condition of this company.

"The folks in my State," he said to one of the actuaries in charge, "are disturbed about the condition of this company, and I am here to count the assets and otherwise pass upon the condition of the company."

"You are talking to the wrong man," said the expert. "You must make your demands of the president of the company; but before you do so it might be illuminating for you to know that we now have ten men in the vaults of the company, who have for several days been spending their entire time checking the bonds this company owns, and who, with each man assisted by a clerk of the company, will be engaged many days more in this one task alone."

This bit of news quite overwhelmed the insurance commissioner. When he had digested this staggering condition, he visited the officers of the company, who talked pleasantly to him; he took in New York for a few days, and then, no doubt, went back to report what his vigilance had done for the people of his State. If he followed the usual practices, he sent in a generous bill for his expenses, which was probably worth the price in giving him a slight appreciation of the enormity of State supervision.

To say that supervision of life insurance is too big for any one State, and that the policyholders paying to more than forty different States for supervision are humbugged more than forty times, is not telling the whole story. One of the most vital weaknesses in present State supervision is that of producing conflicting methods, laws and regulations for supervision that embarrass and retard the operation of interstate life insurance and add to its cost.

Mr. Folk's story about the sick cow was introduced apropos of a centralizing movement, given impetus at Washington by the President of the United States, which promises to hasten the nationalization of insurance supervision, as it

may even now be credited with supplying precedent for the convention of governors who recently met to consider conserving the natural resources of the nation.

As the life-insurance investigation proceeded, it became increasingly apparent to the committee of western insurance commissioners engaged upon the New York examination, that there would be a deluge of insurance measures flooded into the legislatures of the different States that would meet at the first of the year. Realizing from personal pressure the political demands for radical life-insurance legislation, these insurance commissioners bestirred themselves to prevent ill-considered, drastic and conflicting legislation that would injure the cause of life insurance, and, through that cause, the policyholder and the public.

Thomas D. O'Brien, then the insurance commissioner of Minnesota, took the initiative in placing the situation before Theodore Roosevelt in a visit to Washington. The President acted with characteristic promptness, making an appointment for a conference with the western insurance commissioners engaged in the New York examination, who attended with their expert actuaries and the executive committee of the Life Insurance Commissioners' Convention. As a result of this conference, a convention was called in February, 1906, of governors, attorneys-general and insurance commissioners, in the name of Thomas E. Drake, Insurance Commissioner of Washington, D. C.

That this conference did not result in achieving uniform life-insurance legislation in the several States is less important than the fact that the idea of a national convention for uniform action by the different States was given force. Nor was the result of this convention without its fruit. The convention appointed a committee of fifteen, composed of State officials of the various States, which committee, headed by

Thomas D. O'Brien, the original mover in the matter, held numerous conferences attended by experts and company representatives, which resulted in the formation of a series of life-insurance measures greatly in advance of what might have been expected under the circumstances.

Of course, when these measures were introduced in the different legislatures, they were modified and amended. Even among the States which followed or attempted to follow the recommendations of the Committee of Fifteen, no two adopted all the measures in the same identical form. Withal, however, the Committee of Fifteen performed a prodigious service in preventing ill-considered and unwise legislation being generally introduced in conflicting measures throughout the length and breadth of the Union, and has achieved a large degree of uniformity in the measures already enacted, and in the prospective enactment of these measures by legislatures yet to convene.

At the meetings in Washington, and later at the Chicago conference, a young congressman, Butler Ames, of Massachusetts, gave force to an idea for centralizing life-insurance supervision or regulation, without attempting to legislate into being federal supervision, or restrict the sovereign supervisory powers of the States. This idea, introduced later into Congress as the Ames Bill, was made a subject of hearing before the Judiciary Committee of Congress, and merits more attention as a solution to the question of proper supervision than it has received. Ames' plan was to build up an insurance department in Washington, D. C., under the Department of Commerce and Labor, and equip it efficiently and thoroughly to make all necessary examinations of life-insurance companies of the various States; to make the intricate reserve calculations, and otherwise pass upon the management and solvency of the different companies oper-

ating in Washington, D. C., and by request from commissioners of other States, to extend its activities to companies not operating in Washington.

A central department of this kind, equipped to a degree of thoroughness and efficiency not existent, and indeed not possible or advisable in any one single State, might thus be able to pass on company conditions in an authoritative way that would be accepted uniformly by the different States and territories. Thus a life-insurance company operating under a State department of unestablished efficiency, and wishing to enter into several of the more exacting States, would find it economical to have its affairs examined and passed upon by one central department, whose examination would open the doors to the several States, rather than to submit to multiple individual State examinations. In the same way when a company operating throughout the United States would require a periodic examination, or else an examination due to the exigencies of the moment, the responsibilities of the various insurance commissioners throughout the United States could easily be satisfied by one thorough examination by some such central bureau, as proposed in the Ames Bill.

Of course, there exists a spirit of comity among the States to-day whereby a home-State examination and favorable report is accepted by other States in more or less degree as the home company is in general good repute, and the department controlling the company of admitted efficiency. The utter inability of any one insurance commissioner to examine and pass upon all companies operating within his State, has driven many commissioners to pushing the doctrine of State comity to the extreme of accepting the favorable reports of all other States in passing upon their home companies, provided, of course, that the reports meet the requirements as

to solvency and do not otherwise fail to measure up to statutory demands. Comity thus applied is a panacea against political ills that may at times befall neglected responsibilities of examining the companies of other States, and intrenches the commissioner in his position, and often his desire to be let alone in his own State.

Other factors operating to relieve a situation that calls for needless duplication of examinations, individually more or less effective and thorough, is the disposition following the action of the western insurance commissioners for a plural number of States to join in an examination, or accept some one State's findings because of the individual reputation of the examiner engaged to conduct the work.

At best, however, the "get together" movement among the States is still desultory in character, and justifies optimism only in the indication of what this movement may yet do in finally evolving centralization and uniformity. It is to be regretted that the responsibilities of drawing a model insurance code, to work coördinately with the Ames Bill's central insurance-department idea, were not delegated to competent insurance experts. Ames did not pose as a life-insurance expert, but unfortunately for his centralization idea this attitude was forced upon him, and the idea was lost in the general disintegration of his model-insurance code that took place during the hearing before the Judiciary Committee of Congress.

Since direct federal control of life insurance has seemingly been placed out of reach by the decisions of the Supreme Court, it is to be hoped the idea of the Ames Bill may yet be given force in constructive legislation. Indirectly some such measure, building up a model department at Washington, D. C., under the control of the District Commissioners, and consequently under the control of the

National Congress, could by the voluntary action of the different States be made a great force for efficient and economical supervision.

Conceding the advisability of a centralizing department, it seems greatly to be deplored that the Supreme Court of the United States should have decided (Paul vs. Virginia) that life insurance is not commerce, and therefore its interstate transactions are excluded from the control of Congress or the federal government, leaving each State to exclude the insurance corporations of the other States according to their own dictates, or include them only upon such terms, and subject to such laws, as they chose to enact.

Elizur Wright, the first insurance commissioner of Massachusetts, and therefore the first insurance commissioner in the United States, pointed out in 1870 the serious handicap this Paul vs. Virginia decision imposed upon American life insurance in matters of supervision and legislation. He said: "This loss of nationality is a very serious matter. If there is any possibility of preventing it and securing to life insurance the supervision and protection of national law, wisely conceived and honestly administered, the guardians of life insurance should now bestir themselves."

Advocates of national life-insurance supervision have based hopes on the possibility of the Supreme Court reversing itself in the matter, or of the validity of an act of Congress formally declaring life insurance to be a commerce and hence subject to federal control. The American Bar Association, in the majority report submitted August 30, 1905, declared: "In the interest of publicity and to secure regulation which will insure the maximum of protection to the public, and lessen the cost of insurance, Congress should

provide for the supervision of the business, for it is only by legislation that this power can be demonstrated."

President Roosevelt, in his message to Congress sent the December preceding this report, urged again his previous recommendation that Congress should consider whether it was in its power to control interstate insurance transactions. Both houses of Congress, in pursuance of this recommendation, submitted to their respective committees on the judiciary the question proposed, with the result that both committees reported unanimously that insurance is not commerce, and that it could not, therefore, be subjected to federal control.

There are other reasons why federal control would in practice be long delayed, if ever realized, and why consistent effort toward a unifying action of the State insurance commissioners is a desirable thing to foster and to improve at the present time. Under the political system, the insurance commissionership, its perquisites and its patronage, is a prize not to be lightly treated, and one whose abolishment must be attained by the politicians and those who profit most from its continuance. Beyond this, the State rights subject is involved.

Moreover, a national bureau of life insurance has been looked at askance by many life-insurance men, who fear that it would become but an additional source of expense and annoyance, without superseding the present clumsy and uneconomical State control. With federal supervision superseding State supervision, the question has been raised as to possibilities for unfriendly, narrow-minded, disastrous or even dishonest treatment, where one man achieving his preferment through political channels might inflict more unavoidable injury than is possible under the present multiple system.

In the last session of the United States Senate there were two insurance presidents as senators, one a senator from Connecticut, absolutely opposed to federal supervision, the other a senator from New Jersey, a foremost advocate and proposer of a measure in Congress attempting to achieve federal control. Among life-insurance managers sentiment concerning federal control is divided, though apparently growing more adverse to the present multiple State supervision.

Arthur I. Vorys, the able commissioner of Ohio, who resigned to assume control of the Taft campaign in Ohio, after achieving a degree of efficiency that made him conspicuous in life-insurance supervision, was a severe critic of State supervision and a frank advocate of federal supervision, or an acceptable substitute. The new commissioner of Kentucky, Charles W. Bell, has raised his voice from below the Mason and Dixon line in advocacy of federal control. On the other hand, his southern neighbor, Reau E. Folk, previously referred to, and one of the most able and fearless commissioners, considers that federal control would be a serious infringement upon State rights.

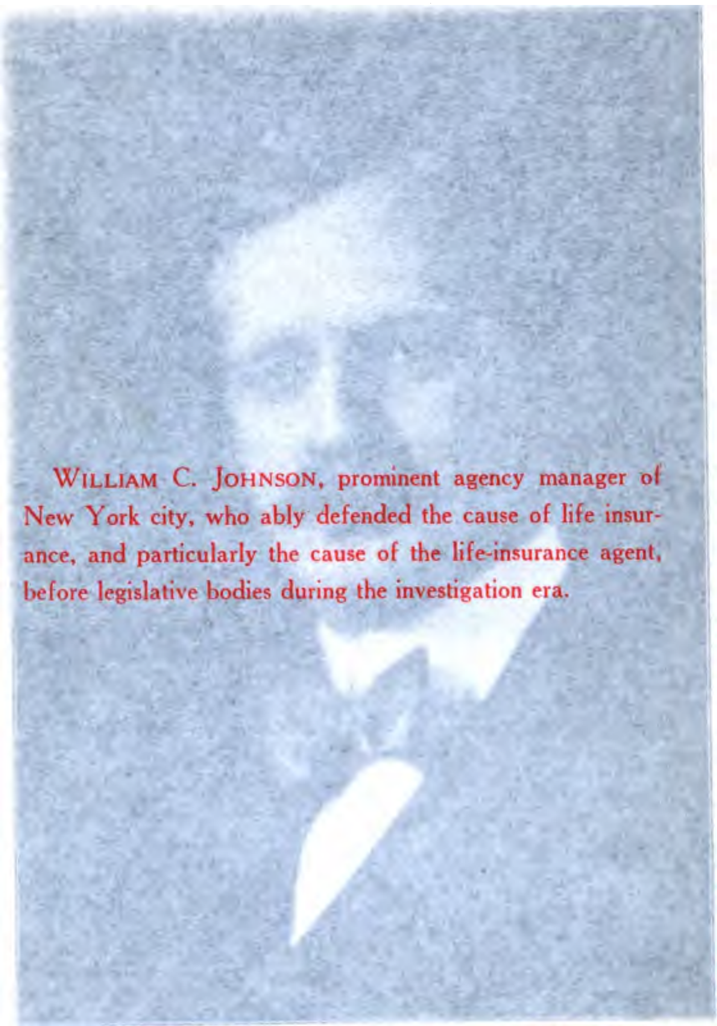
Reviewing life-insurance supervision solely in the light of influences now in operation, or possible to put in operation, for its immediate betterment, the conclusion develops that the cause of better supervision lies chiefly in forwarding centralization and unity through voluntary concessions of individuality among the State insurance commissioners, and in the statutes of the sovereign States they severally represent in insurance matters.

What has made for uniformity and unity of action in the recent past among State insurance departments, largely through the devoted efforts of a few able commissioners, is but an earnest of what can be accomplished in the future.

UNIV. OF
CALIFORNIA

UNIV. OF
CALIFORNIA

WILLIAM C. JOHNSON.



WILLIAM C. JOHNSON, prominent agency manager of New York city, who ably defended the cause of life insurance, and particularly the cause of the life-insurance agent, before legislative bodies during the investigation era.

CHAPTER IX.

LIFE-INSURANCE LEGISLATION.

THE public has learned, in the interim succeeding the sessions of the Armstrong Committee, how the facts of the insurance investigation were distorted and exaggerated when reported at the time, and, without condoning the evils then existent in life insurance, have learned to appreciate the relative insignificance of these evils, the relative pettiness of the graft exposed, and the relative fewness of unworthy insurance officials.

It remains for the public and the policyholder to learn where the cure, as legislatively applied, is worse than the disease.

Life-insurance legislation wrought under misconceptions remains to retard the progress of life insurance in all particulars in which such legislation was unneeded and in which such legislation tends to restrict proper expansion of the life-insurance business. Public opinion, therefore, must go farther than correcting its own erroneous impressions, by supporting and giving force to such changes in life-insurance legislation as will reflect its own corrected ideas.

Governor Hughes ably pointed out at the time of enactment of the Armstrong insurance legislation that the Legislature of New York State meets each year to correct mistakes.

Much of the legislation enacted since the insurance investigation has been helpful to the business and conducive to its enduring expansion. Other acts have set a new stand-

ard of paternalism in American legislation and have grossly invaded rights of contract and individualism heretofore held as sacred as the Constitution itself.

Consider life-insurance figures not as a matter of mere dollars and cents, but as an aggregate of policies covering for the most part urgent family needs in modest amount, and then reckon from the following statement of Superintendent Kelsey, in New York's 1908 Life Insurance Report, what havoc has been wrought in the halt of life insurance — havoc measured in want and penury to the uninsured and in appreciable effect upon the economic welfare of the State and the nation. Superintendent Kelsey reports:

> In 1904, being the year preceding the outbreak of life-insurance troubles, the New York State companies wrote new business, as per returned to Department on paid-for and written basis, to the amount in round numbers of $1,147,000,000, exclusive of industrial insurance, and carried a total insurancce of $5,970,000,000. This was an increase of insurance in force of more than $444,000,000 for 1904 over the preceding year. For several years prior to 1904 the New York State companies had shown an increase from year to year of insurance in force of from $365,000,000 to $599,000,000, and all prospects seemed favorable for uninterrupted advancement. . . . Compared with the figures of 1904, the new business of New York companies was less by $692,000,000 and the aggregate of insurance in force has decreased $53,000,000. Instead of an average annual gain in insurance in force, as shown for several years prior to and including 1904, of about $473,000,000, there has been a net average falling off of some $18,000,000 annually for the three years since 1904, allowance being made for the increase of insurance in force of 1905 over 1904.

New legislation in other States, with the exception of Wisconsin and Texas, has largely followed the recommendation of the Committee of Fifteen, and has been for the most part beneficial, and life-insurance companies of other States than New York, doing business in New York, make a

better showing. Of these companies Mr. Kelsey says in his report:

> Life-insurance companies of other States, which are now doing business in New York and report to this Department, in the year 1904 secured new business in the sum of $650,000,000 and increased the amount of insurance in force over the preceding year by $317,-500,000. For 1907 such companies will report new insurance on paid-for basis approximating $569,000,000 and an increase of insurance in force (since 1904) of about $874,000,000.

After withstanding the iconoclastic criticism of 1905, the days of the active investigation, life insurance has, in the places where new legislation has been unwisely restrictive, fallen off in a way to indicate legislative mistakes.

It is in the study of life-insurance legislation that the reasons or excuse for some of the worst abuses shown in life insurance — in fact, the whole category of evils epitomized in the phrase "Yellow Dog" items — find their being. Primarily the responsibility for "Yellow Dog" funds goes back to the "strike" legislator who introduced bills for the sole purpose of being bought off, and to the illogical life-insurance officials who assumed that the prevention of unwise and expensive legislation could be permanently achieved in this way.

Andrew Hamilton, famous as a dispenser of the so-called "Yellow Dog" moneys, indisputably maintained that the expenditure of these moneys had saved the companies and therefore the policyholders many times the amount expended, in avoiding costly legislation and taxation. As the investigation showed, the three big life-insurance companies divided the country up in a crude manner, to assume each a part of the burden of opposing unfavorable legislation or the "strike" measures of the yellow legislator. The obligation of taking care of the whole country was easily shifted to

the shoulders of the Big Three, accordingly as the smaller company realized that the larger company had more at stake and in fighting the measure upon its own account would incidentally be forced to take care of the smaller company. It is history that the larger companies were forced to do so.

Apart from being unmoral, the system of maintaining an insurance lobby and "Yellow Dog" funds for preventing "strike" legislation was shortsighted. The problem grew with increasing number of "strike" bills. Furthermore, the companies' "Yellow Dog" methods were forfeiting the esteem of the policyholders, instead of arousing these policyholders to a realization that the problems of correct legislation were their own problems and those of the worthy legislators whom they selected.

The "Yellow Dog" did not have his sole habitat in life insurance. His canine yelp was sounded more often and more recurrently from the strongholds of other powerful State and interstate institutions and industries. Similarly, the campaign contributions from life insurance for which the "Yellow Dog" funds were utilized for the first time in the silver campaign of 1896, though morally wrong, were thought at the time justified in parallel contributions from other financial houses or powerful interests where the free coinage of silver, sixteen to one, spelt disaster.

Legislative ethics seem generally to have reacted from these low standards. To-day the lobby is restricted or prohibited. Campaign contributions and similar items that indirectly influence legislation and establish policies for the country have turned upon them the searchlight of a healthy publicity, and in life insurance a commendable statutory "Thou shalt not."

Life insurance was unfortunate in being made the "horrible example" for bringing about this improvement in a

country's legislative ethics. Though bad for the business it was good for the country that it was so, since life insurance, because of its soundness at core, was capable of withstanding the wave of scrutiny and the criticism. In face of after events in some of the great banks and trust companies of our money center, it is safe to assume that a similar searching investigation of other financial institutions would have been a much more serious shock to the country at large, and perhaps permanently disastrous to many institutions that might thus have been put under fire.

The proper substitute for all attempts at bribery, whether in some Hamiltonian guise as campaign contributions, or in any other form, is a direct appeal to policyholders and legislators. To be convincing, this appeal must be accompanied by thorough publicity of the company's affairs, simplicity in describing the details of the business, and convincement that the different life-insurance companies are not entities in themselves, but groups of policyholders banded together under a scheme of mutual protection. Mutual life insurance calls for self-sacrifice from the different members in voluntary tax to take care of definite financial necessities brought about by death, and thus in a large measure relieves the State itself in supplying funds to bring up, educate and develop citizens whose sustenance and development might otherwise have been a charge upon the State.

The protection of policyholders as patrons of a scientific business, enacted by power of the State in a corporate name, calls for legislation. Every item of this legislation that makes for basic soundness in life insurance, in prescribing proper standards upon which the business may be done, in requiring mathematical reserves in accordance with these standards, and in otherwise supervising the scientific correctness and equity of plans of operation, and obtaining rigid

accountability of insurance funds, is not only a boon to the policyholders but makes insurance worthy of its name.

A controlling publicity of company affairs, enacted to bring out a proper comparison of the economies between different companies, of the soundness of these companies, and of their comparative service to policyholders, calls for legislation that is highly beneficial in its type. When, however, legislation goes beyond this to dictate the details of the business or set up new standards in dealings in life insurance, admittedly unwise to establish or adopt in any other department of industry or commerce, in so far legislation exceeds its usefulness and becomes vicious to the interest that it would secure.

Momentous departures in American legislation introduced in recent life-insurance enactments demand consideration on three scores:

First, because of the immediate injury to the life-insurance business, as demonstrated in the disintegration of agency forces and the halt in volume of business.

Second, because the laws are radical departures in limiting the rights of contract and in interference with the interstate transaction of life insurance, through enactments that reach out beyond the confines of the State, indirectly legislating for companies of other States.

Third, because of the paternalistic principles these laws set up in American legislation, surrendering that individualism made triumphant by the Anglo-Saxon for the paternalism of inferior nations.

To illustrate these departures it is only necessary to consider specifically a few of the more important laws.

When New York State enacted a standard life-policy law, at the recommendation of the Armstrong Committee, it borrowed the work of the companies in setting up the

present-day policy as a standard, and by that very act gave pause to the further development of life-insurance forms and clauses.

Life-insurance policies have been developed to their present-day usefulness through the ingenuity of actuaries and insurance managers in devising forms of insurance with privileges and conditions that would increase the usefulness of life insurance and thereby increase its field of operation. Healthy competition furnished motive in the struggle to perfect the policy. The enactment of new legislation to establish a standard life-insurance policy naturally means an arrestment of the development that has gone on under freedom of competition and puts the State in the attitude of setting up a policy which is the sole work of unrestricted and undictated competition as the acme of perfection for time to come.

Legislation of this kind disregards the fact that had a standard policy been enacted ten or fifteen years ago, representing the then status of development in life-insurance forms and policies, the standard policy would have been incomparably inferior to the one now set up.

In the hearing on the standard policy law, the representative of a foremost company made the contention that his company objected to the standard policy, not because it was unwilling to do all that the standard policy required in the service of the policyholder, but because it was unwilling to forego the privilege of doing more. As the standard-policy law of New York was enacted, it permitted the insurance commissioner to approve other forms, but made the further evolution of the policy most difficult.

After two years of disappointing experiment the New York Legislature recognized the necessity for repeal and repealed the standard-policy law in 1909, substituting

"standard-clause" provisions of the type recommended by the Committee of Fifteen. In signing the new law, Governor Hughes went on record as follows:

On the report of the Armstrong Committee, in 1906, it was recommended that standard forms of policies, other than industrial policies, should be issued in this State by all life-insurance companies doing business here. The law, as enacted, limited the requirement to domestic companies. It has been insisted that this placed our own companies at a disadvantage. The desirability of having policies in simple, concise form, without ambiguity of concealed traps, can not be gainsaid. This result, however, may be gained by providing for standard clauses and by requiring the approval of the superintendent as to forms of policies used in this State. The present bill provides that all policies, other than industrial policies, which are issued or delivered in this State, shall contain certain specified standard provisions, and that with respect to other matters, the form of all policies of life or endowment insurance issued or delivered in this State shall be subject to the superintendent's approval. This I believe to be a justifiable change.

Probably the most serious legislative departure of all was legislating the companies into an arbitrary minimum of security through contingency surplus laws, which allow only a certain amount of surplus, or unassigned funds, determined on a sliding scale by size of the company, and no more. The limitation of available surplus, or unassigned funds, in life insurance, limits the security of the company by legislative act, and is thus at variance with previous legislation.

This act had not been on the books of New York State two years before the contention that it was a dangerous law, made against it by the insurance companies, was more than proved in the money panic of December, 1907. Under the contemplated action of the new law, the depreciation in securities at that time was more than the contingency sur-

plus, and therefore sufficient to make certain stable companies technically insolvent.

Section 97 of the New York Insurance Laws operates indirectly to fix the amount of wages to be paid life-insurance workers. In the words of President Kingsley, of the New York Life, it might properly be called "An act to fix the wages or compensation of life-insurance agents, examining physicians, inspectors, agency directors, cashiers and of clerks, stenographers and office boys engaged in the business of life insurance, and to fix them low." Mr. Kingsley commented:

> We have heard much in this country, and are hearing much now, about laws to favor men who work — laws that will raise wages and raise the standard of living above that of other countries — but I think this is the first attempt to lower wages by law or to fix by law a maximum wage for any large body of workers. The law not only prescribes a maximum amount that may be paid by a life company for new business, but it goes farther and prescribes how this amount may be parceled out, and when it may be paid. It has already reduced the compensation of a body of men whose work is most helpful to the State, and has driven a large number of them out of business.

Limiting the amount of new business which any company can write during the year, is another radical departure. While in the days of deferred-dividend policies and less rigid accountability of life-insurance funds such a measure has had the support of some important life-insurance men, it would appear that with the changed conditions in life insurance the reason for supporting this measure, even by the few men that at different times have proposed something of the sort, has been largely overcome. It has no parallel in American legislation, save the much-condemned "trust-busting" theory of William J. Bryan to restrict the activities of a corporation when it controls fifty per cent of any

given commodity. No one life-insurance company has ever controlled any large fraction of fifty per cent of the insurance output, and the percentage of any one company to the aggregate is diminishing. Beyond this, no life-insurance company has any special privileges that would make monopoly possible. The incisive logic of Governor Hughes, who during the 1908 campaign ridiculed the Bryan monopoly limitation plan, applies no less forcibly to the New York insurance laws. Moreover, new legislation has operated to reduce field organizations, by the reduction in commissions, and consequently has had a direct effect upon the volume of life insurance placed, without further limitation. Many of the companies whose rank and output have been thus depleted by legislative restrictions are innocent victims, whose aggressive operations not even the most radical legislator would knowingly have had curtailed. The unoffending agent has suffered most.

In attempting to restrict severely the larger companies, who were the chief offenders in life-insurance matters, without regard to the fact that the reprobate practices in these companies have been entirely discarded, class legislation has been inaugurated.

A review of life-insurance legislation shows not only the introduction of new ideas into American legislation, but a trend toward paternalism which is the more to be deplored since it seems to be taken unmeditatingly. Freedom of contract and individual right to unrestricted competition has marked the progress of life insurance in America and made its achievements possible. There were no evils developed in the life-insurance investigation that could not have easily been removed for all time by the enactment of a few of the laws which have been placed on the books, such as expressly forbidding such expenditures as campaign contributions, or

calling for publication of all details of each item spent before legislative bodies in direct or indirect influence upon legislation and compelling annual dividend accounting.

Above all, the evils developed in life insurance were brought about by the deferred-dividend system, in which the policyholders' dividends were withheld for a period of fifteen or twenty years, or other fixed period, and in the meantime funds were accumulated without accountability to the policyholder or definite liability to the company.

Consulting Actuary S. H. Wolfe, who was active in the service of the State insurance commissioners during the days of the investigation and is high in the counsels of many State insurance commissioners, sums up his observations upon the abuses which have brought about so much unjustifiable legislation. Mr. Wolfe states:

> The most surprising thing in connection with the expose of abuses in the insurance world is not that they have reached such proportions, but that the evils have been of such slight magnitude when the large sums at issue are taken into consideration. Reprehensible as the facts complained of have been, it should be borne in mind that at no stage of the proceedings was it shown that the primary interests of the policyholders were in jeopardy. The evils which were exposed as a result of the investigations dealt almost exclusively with the profits which policyholders might have expected as a result of the investment feature of the business. In other words, the trust which had been placed in the hands of the officers of insurance companies was, theoretically at least, divided into two grand divisions, the first dealing with the question of the protection element of the contracts between the companies and their insured; and, second, the investment element, dealing with the profits which would result from fortunate investments and a conservative and economical administration. I can not recall at this moment an important instance of the trustees' dereliction to their duties in the first division, and it requires no extended consideration of the subject to realize that, after all, the principal function of an insurance company is to furnish to the insured satisfactory evidence that at his

death the proceeds of his policy will be paid to the designated beneficiary. Important as the other matter is, it must pale into insignificance in comparison with this primary object.

A law calling for an annual accounting of all deferred-dividend surplus and the reckoning of deferred-dividend surplus as a tentative liability, would at once have done away with the evils of large unaccounted funds left within possibility of abuse. In supplement to this deferred-dividend policies might have been forbidden further issuance. A simple law of this kind would have put the participating companies upon a basis of annual dividend competition, which could be looked to to insure the largest possible economies in the service of the policyholder, in order to compete successfully upon the size of the annual dividend and the lowness of cost of insurance.

Drastic as life-insurance legislation has been, it has remained for only two States, Wisconsin and Texas, to enact laws which absolutely necessitated the withdrawal of the majority of the important companies from these States. The withdrawal of the companies from Texas followed the enactment of a bill called the Robertson law, which compelled the investment of seventy-five per cent of the reserves of Texas policyholders in Texas securities, and then called for the deposit of these securities in localities in Texas where the same would be taxed. The law was passed in the legislature and frankly advocated because of the extra revenue expected in the Texas communities in which the deposit of security was to be made.

Fortunately, the 1909 Legislature of Texas recognized the heinousness of this enforced deposit for additional taxation and repealed and reënacted the Robertson law to remove the tax feature.

Wisconsin legislation is a general mist, repeatedly shown

to be incapable of consistent construction by the men who perpetrated it, and introducing, among other absurd departures, a measure that fixes the maximum premium that may be charged on the different forms of life insurance. This fixing of a maximum price of insurance is without parallel in American legislation. The nearest analogy is the fixing of maximum transportation rates for railroads, and this can not be called a parallel, since the railroad is a corporation endowed with corporate privileges of eminent domain, and for practical considerations can not be controlled by sole recourse to free competition.

Life-insurance companies are given no special privileges, and are subject to active and unrestricted competition and are thus not to be paralleled with transportation or the public utilities.

Wisconsin legislation is valuable as a commentary upon the impossibility of enacting workable scientific legislation through the recommendations of men not scientifically qualified by knowledge and experience to understand the necessities of life insurance and draft proper legislation. Scientific legislation of any kind can not be enacted as compromises. It should in all cases be recommended by competent and disinterested experts.

Luckily for life insurance, the insurance commissioners of the country show disposition to move more slowly and advisedly in recommending legislation, and to act with a knowledge and a study of conditions in other States, in order to avoid conflict. A life-insurance corporation is absolutely and indisputably controlled by the home State, and has no standing in other States save such as the foreign State sees fit to give it. It is therefore possible for any one State to legislate for the insurance companies of all other States, exacting compliance with its laws upon the penalty of other-

wise denying admission of the foreign company to the State. If abused, this condition would leave interstate life insurance in hopeless confusion, where it did not absolutely prohibit it. As it is, laws of the different States conflict more or less and awkwardly involve the business of interstate life insurance.

An example of this has just been shown in the action of Wisconsin and Texas, where the retiring companies were forced to lose, as a penalty for their withdrawal, the splendid agency organizations which they had built up in these States at large cost to themselves. These agency organizations, moreover, supplied to the States in which they operated an economic factor, and, through their disintegration, the local-agency forces were not only left without employment, after years of labor in upbuilding a clientage, but the community itself suffered through the arrested activities of these men.

The principle of one State legislating for another is evidenced in the paternal dictate attempted by some States as to salaries of executive officers of life-insurance companies. Thus, Missouri says that no life-insurance executive shall be paid more than $50,000 per annum, if such life-insurance company would do business in Missouri. Regulation of salaries in any corporation is a radical departure in itself, even in those States which go no farther than an attempt to regulate the maximum salary paid to officers of home life companies.

President Sylvester C. Dunham, of the Travelers' Insurance Company, refers to this phase of the situation in concluding that New York has lost a golden legislative opportunity. Mr. Dunham says:

A State may capriciously and unreasonably prescribe the terms upon which foreign corporations may be permitted to do business therein. Such authority should be exercised with the greatest deliberation, foresight and wisdom, or reprisals and other injurious con-

sequences will surely follow. New York might have enacted a law based upon the principle that it is the duty of a State to govern the domestic affairs of its own corporations, as much in detail and in particular as may be found necessary for the welfare of the public, and that it may erect standards of solvency and integrity which must be maintained by companies of other States desiring admission. But like duties, responsibilities and privileges are imposed upon and enjoyed by every other State. This is a principle that should be conceded when the other is asserted, and so far as foreign companies are concerned the regulation of their domestic affairs should be left to domestic authority. New York companies can not consistently complain of a law in Missouri restricting the salaries they may pay to their officers so long as New York has a statute restricting the compensation Missouri companies may pay their agents, the law to be obeyed in both cases under penalty of expulsion.

An act recognizing these principles would have been far more effective than the present arbitrary assumption of the right to legislate for all the States, and would have commended itself not only to the taste, but to the judgment of others. In the opinion of many, New York just missed the greatest opportunity that has presented itself in the history of insurance to promote the deserving cause of wise, conservative and uniform regulation of insurance companies.

To advance best the cause of life insurance, which is at heart the cause of fellowman and sister-woman, legislators of the different States must rise above State lines, and view the legislation which they would enact and repeal as a national problem of corporations doing interstate business.

The State that enacts onerous or restrictive legislation, or is greedy in its calls for taxation, fees and licenses, subjects its home companies to retaliation in kind in many of the other States where retaliatory laws are in force. Retaliatory legislation of any kind is vicious, and a general disposition on the part of the State legislator to survey life-insurance legislation as if he were a congressman rather than a State representative will do away with the cause for retaliatory laws.

There must always be in legislation a clear conception between Utopian hopes and the legislation attainable. The new laws appertaining to election of directors, to give popular force to the meaningless alliteration "Mutualize the Mutuals," afford illustration of legislators failing to recognize their limitations. The disgraceful scramble for proxies in the New York Life and the Mutual Life under the first policyholders' election following the Armstrong enactment, kept insurance in a turmoil, cost the policyholders thousands of dollars in meeting the requirements of the acts, in supplying policyholders' lists and in the conduct of the election. The result was to reëlect the board of directors nominated by the company in both instances. After-events showed the real character of the opposition ticket, bringing about the penal indictment of Scrugham, the secretary, and showing what desperate chances the managers and financiers of the opposition movement were willing to take in order to get control of these companies. It does not follow that the many distinguished and worthy men who were on the opposition ticket could have been influenced in any unworthy abuse of their offices, yet it is the fact that hundreds of thousands of dollars were spent by not disinterested persons to achieve their election. Again, in the recent election of the Northwestern Mutual, under the new Wisconsin laws, probably some $25,000 of the policyholders' money was unnecessarily spent in the reëlection of the board of directors.

Incidentally these election laws call for the disclosure of policyholders' names and addresses and other information connected with the policyholders' private affairs, which in many cases the policyholder did not care to have known. Far from being beneficial, the New York law and the Wisconsin law hold open opportunity for freebooting adventurers to attempt, by the wholesale use of money and

misrepresentation, to obtain control of the huge assets now in charge of the men under whose care they have been built up and conserved.

In this democratic government we achieve a popular democracy in a more or less indirect way, although the theory of democracy is, of course, an open field for all candidates, independent of the selection of parties, conventions, caucuses and even individual dictation of some man high in power as to who should be nominated.

With this abiding limitation of democracy, in spontaneously realizing the spontaneous preferences of a large and heterogeneous constituency, the legislator might well realize the impracticability of obtaining spontaneous nominations for a directorate without a parallel organization, and withal a selection that would bring out better, more responsible, or more worthy nominees. Despite the contention that the president of the mutual company wielding from his office policyholders' proxies makes for despotic form of government, twice within a generation has the president of one of the Big Three mutual companies been dethroned through popular demand, and in each of the other two large mutual companies has a chief officer, and in fact the whole régime, been forced out of power, and in one of these cases the managerial control rested in capital stock. This alone indicates the power of publicity in achieving changes when necessary, and points the lack of necessity for laws which would only be useful for a similar need at a time when publicity itself was working the cure.

Former Commissioner Rittenhouse of Colorado, one of the most forcible men in life insurance, whose name was a terror to the unworthy in all branches of insurance, stated some legislative " don'ts " which might well be pasted in the hat of every legislator. Here are Rittenhouse's " don'ts ":

Don't compel insurance companies to invest a portion of their funds in your State. If your State has good investments, insurance money will come without compulsion. Companies should be permitted to place their investments where they will bring the best results, regardless of State lines.

Don't close the door to improvement in policy contracts by establishing an ironclad standard form. Equally good results can be accomplished by prohibiting undesirable clauses and requiring certain desirable provisions.

Don't undertake to regulate by law the remuneration of agents or employees of insurance companies, and don't try to limit the volume of business or the size of insurance companies.

These drastic measures may be constitutional, but they are un-American, and unnecessary to correct abuses in insurance. Efficient supervision and systematic and fair publicity will overcome the difficulties which these drastic laws are designed to remove, and they will do it without the serious loss of insurance protection which has followed the ill-considered action of New York and Wisconsin.

Don't raise taxes. On the contrary, inasmuch as the taxes on premiums come from the pockets of the policyholders, they should be reduced to a reasonable point, and if justice is to prevail, they should be made uniform throughout the States of the Union.

Legislation that restricts where competition and freedom of contract would better serve the progress of life insurance and the evolution of desirable life-insurance forms and plans, is a detriment to the public it is designed to serve. The earlier such legislation is repealed the better for the public and the policyholder. Legislation that undertakes the details of the management of a company, and to fix the arbitrary limits of safety and solvency, robs the policyholders of the judgment of the paid officials enlisted in their service, and courts possible disaster for the institution. Such legislation may be likened to the fixing of an artificial barrier out at sea to prevent the wreck of vessels upon rocks nearer shore, so that the vessel, instead of having merely to

reckon with the rocks, is now placed in additional danger from the barrier.

The evils of deferred-dividend insurance, the misleading estimates which brought about so much disappointment and were productive of the release of so much pent-up indignation at the time of the exposé, are now legally placed beyond power of recurrence.

Publicity and competition are the elements that must be looked to for healthy and favorable conditions in life insurance. The trend of life-insurance legislation, since the investigation, has been paternalistic to a degree that menaces Anglo-Saxon freedom of contract.

Life insurance was borrowed from England, where old-line life-insurance companies have been in continuous operation for one hundred and fifty years. The legislation that governs our life insurance, however, has been an American development, as the companies operate in Great Britain under a system of thorough publicity, in substitution of all restrictive and paternalistic supervision and legislation. The system has been most successful in England, and the companies have been built up strong and worthy. Publicity, complete and thorough, is what is needed in American life insurance, together with rigid accountability of all surplus and reserve funds. Beyond this, prevent by law — so far as law can prevent—vicious practices in rebate, false estimates, misrepresentations, discriminatory contracts, special privileges and control of subsidiary corporations and other reprehensible practices which should have the disapproval and penalties of legal forbiddance.

It is to be hoped that the more obnoxious laws will have early modification or repeal, and that the principles of freedom and publicity successfully mingled will have larger consideration in future American legislation. Above all,

it is to be hoped that the States will legislate as part of a union, and not as sovereignty in themselves, wholly disregarding the exigencies of a business that calls for separate compliance with the laws of every State in the Union in which the corporations doing this business would operate.

A scholarly valedictory upon present-day life-insurance legislative problems is contained in the following words of President DeBoer, of the National Life of Vermont:

> We do not doubt but that life insurance has a greater and better future before it than in the past, because, in fact, it has grown better and more useful to society from the earliest date; but the immediate effect of new laws, growing out of investigations, limitations and endorsed changes in practice, will be to reduce vastly the volume of solvent, safe and enduring life insurance written, and this must be regarded as a public misfortune, on account of its adverse effects on thrift, on sound moral and family conduct and on the provision which dependent beneficiaries need even more in an age of quick expenditures than in times of a more quiet and simple life. The State, we believe, should demand an adequate test of solvency, a mutual practice, an equitable distribution of life benefits, freedom from theft of funds, from subversion of funds, from political control and from entangling business alliances, but, at the same time, the State should proceed slowly in exacting an unlimited control and direction over the work and economies of a business, the promises and success of which it does not undertake to guarantee or pledge itself to assume and discharge. It should and must leave the individual some prudential liberty to direct and act on judgment and in the open, or else substitute the public guarantee and compulsion for that individualism and for commercial and industrial independence, a step in degradation of democracy which our people should never take, and, we believe, will not take.

UNIV. OF
CALIFORNIA

UNIV. OF CALIFORNIA

RALPH W. BRECKENRIDGE.

RALPH W. BRECKENRIDGE, Chairman, Insurance Committee of the American Bar Association (1909), and vigorous champion for insurance taxation reform.

CHAPTER X.

TAXING A TAX.

TO the policyholder clamoring for life insurance at reduced cost, and to the critic in general of life insurance who contends that its premiums are too high, this chapter on life insurance is especially directed, to answer the clamor of the former by agreement with the latter. Reply can be made to the two classes just enumerated: "You are right in your clamor; keep it up. Life insurance does cost too much." Or, in equivalent answer: "Yes, premiums are too high. They should and can be reduced."

Both these replies involve but a matter of correcting taxation evils imposing excessive, burdensome and unjustifiable taxation upon the policyholder. Unfortunately the policyholder does not realize his grievance in this direction, or the enormity of it, since the heavy increase in his insurance costs is not occasioned by a direct tax but is abstractly put upon him in taxing the corporation of which he is the concrete and paying unit. Before taking up the wherefore and why of excess insurance cost to policyholders because of excessive taxation, a little evidence from official sources illuminates its reality.

"In the year 1906," says President Taylor, of the Connecticut Mutual, in an annual address to the policyholders of the company, "forty-two life companies, reporting their transactions to the Superintendent of Insurance of New York, returned to their policyholders in dividends $39,726,-372.01; and in that year these companies were compelled to pay to the several governments in whose jurisdiction they

were licensed to transact business, taxes in various forms in the sum of $10,149,816.83, or 26.22 per cent of total amount of dividends returned." Mr. Taylor concludes: "All remedial measures will prove futile without the hearty support of the men who pay the tax — the policyholders."

Stephen H. Rhodes, late president of the John Hancock Mutual Life, in the desire to impress the facts upon the policyholder, that the policyholder might in turn put his impress upon the legislator, reported:

> The business of life insurance will not "run itself" any more than any other business. It needs laws for its proper guidance, but laws made, after due consideration and knowledge, by men capable by experience of grappling with all the delicate and complex problems of the business. Many of these new laws impose additional costs, either direct or indirect, upon the transaction of the company's business, and these additional costs fall eventually upon the policyholder. The policyholders, when they awaken to the fact, can do much to enlighten the legislators, particularly as to the excessive taxation of the companies, which amounted in 1906 to about $9,000,000 in excess of the amount necessary to maintain the various insurance departments, an amount equal to over twenty-two per cent of the dividends paid policyholders. Compared with this amount, that paid for the several items so strongly assailed in the restrictive laws is so insignificant as to be unworthy of notice.

Viewing the life-insurance premium as a self-imposed tax to cover an unescapable hazard, President H. B. Stokes, of the Manhattan Life, designated a life-premium tax, in official report to the policyholders of his company, as a tax upon a tax, "that works against the best interest of the thrifty, provident people of the State who are providing against future contingencies." Mr. Stokes objects to taxation many times greater than the cost of running the various insurance departments and concludes that a system taxing the equivalent of twenty-five per cent of the amount paid out in dividends to policyholders reduces the policyholders' dividends

to just that extent. "You will be serving your best interests," continued President Stokes, "and the best interests of your friends and neighbors who are insured in any company if you will use your influence with your local representative and explain the matter to him in its true bearing."

Corroboration of the excessive and onerous burden of taxation can be produced from the records of every old-line life-insurance company operating in the United States. To the statements quoted, which are typical utterances of life-insurance officialdom to policyholders, is added by way of conclusion the following, from the annual report of the Ætna Life Insurance Company, whose president is both a high life-insurance authority and a United States senator:

> It is well for policyholders to remember that all taxes, fees, and other expenses required by law or by State authority, eventually find their way into the premiums to be paid by policyholders or reduce the dividends of participating policyholders, and become therefore a tax upon the insured. It is reasonably contended that there should be no tax whatever upon life-insurance premiums, because it operates as a special tax laid upon the thrift, prudence and forethought of the policyholder. If such a tax is justifiable at all it should be kept at the lowest possible rate. The policyholder should use his influence with the legislative powers to this end. There is probably no other business that would stand the tax upon its gross receipts which is imposed by most States upon life-insurance premiums.

The Ætna issues, in addition to participating or dividend-bearing policies made the subject of comment, what is known as "nonparticipating" policies or "stock-rate" policies. Nonparticipating insurance calls for no dividend return, but is issued at lower rates of premium than participating policies. Arguments urged by the president of the Ætna, to show how taxation comes home to burden the participating policyholders, are equally forceful when applied

to nonparticipating insurance. In nonparticipating insurance the cost of taxation has been taken into consideration, and has added a quota of two per cent or more to the annual premium.

Time-honored and primary principles of enlightened taxation dictate fixing taxes to bear lightly upon necessities, to be relatively heavy upon luxuries, and only placed in more radical form in restraint of indulgence more or less inimical to public policy, while public, religious and charitable institutions that forward public policy are held immune from the tax-gatherer. Accordingly laces, silks, foreign wares, tobacco and like luxuries are heavily taxed, while plain foods and cheap clothing constituting the necessities of life escape lightly, and charities, schools and savings-bank deposits are not taxed at all, or taxed exceptionally, and then only in small amount. Liquor pays a tax designed to produce not only revenue but restraint.

It needs but a statement of these primary principles and but a superficial consideration of the purpose of life insurance, issued for the most part in small policies, to understand the iniquity of taxing life insurance in excess of the cost of efficient State supervision.

Twenty-five million American men, women and children, for the most part poor, and whose insurance averages for the whole less than $600 a policy, not only pay the cost of their own insurance and of State supervision and regulation that should be much more economical than it is, but in addition contribute an uncontemplated yearly profit to the States of over $8,000,000. If the companies continue their normal growth and tax rates remain unchanged, within the next ten years the provident policyholders of the United States will be called upon to pay to government authorities more than $100,000,000. In other words, the policyholders of the coun-

try can have their insurance within the next ten years cost them less by $100,000,000 by achieving the removal of taxation from life insurance.

This excessive insurance taxation is without parallel. Liquor is more heavily taxed, but it is an offense against decency to parallel the life-insurance business with a traffic frankly taxed to restrain its ravages upon the individuals and resources of the taxing communities. Quite to the contrary, life insurance, in its self-imposed taxes of premium payments, provides the means for bringing up the young, housing the old, educating and nourishing a citizenship which must otherwise be provided for in many instances by charitable organizations or institutions maintained at the expense of the State. Policyholders of the country therefore do a service to nonpolicyholders and to the country at large in voluntarily assuming obligations that reach into old age or beyond the grave.

Truly a life-insurance tax is a tax on thrift — not the kind of thrift which may be said to be inherently evidenced in all forms of wealth, but the kind of thrift that is applauded by law in exempting savings-bank deposits from taxation; the kind of thrift which forestalls poverty, ignorance, infamy, crime, as savings-bank deposits have never done or can never do.

"Because of the beneficent character of insurance," says Thomas E. Drake, in official report of the Department of Insurance of the District of Columbia, of which he is the superintendent, "I consider it equally as unjust to exact from policyholders anything above a sufficient sum to maintain supervision as that of imposing a tax on school, church or cemetery property, which is everywhere exempt from such extortion."

Eliminating for the moment the claims of life insurance

to freedom from taxation on grounds of public policy, the injustice of present taxation can be brought out by comparison with industries that under no circumstances could make claim for similar exemption. In a recent issue of *The American Lawyer,* an article entitled "Burdening the Insured" supplied the following comparisons, with the explanation that the figures were taken from the books of four business houses, all located in a certain city of the United States, and compared with a life-insurance company paying taxes in the same city.

RETAIL DRUG STORE.

Gross income for the year	$ 64,000.00
Taxes actually paid	91.00
Insurance tax of two per cent on gross income	1,280.00

RETAIL GROCERY.

Gross income for the year	$ 61,864.61
Taxes actually paid	70.00
Insurance tax of two per cent on gross income	1,237.29

RETAIL DRY-GOODS STORE.

Gross income for the year	$342,000.00
Taxes actually paid	639.87
Insurance tax of two per cent on gross income	6,840.00

WHOLESALE IMPLEMENT HOUSE.

Gross income for the year	$464,000.00
Taxes actually paid	283.50
Insurance tax of two per cent on gross income	9,280.00

The comparisons made in this illustration are, of course, not generally applicable, but are illuminating so far as they go. In the city under comparison, life-insurance taxes are two per cent of the gross premium, which is an average life-insurance tax, although the tax varies in the different com-

munities, producing the grossest form of discrimination as between policyholders of the different States.

There are some difficulties in clearly comparing tax rates, because taxation in different communities is predicated on systems that more or less differ. For example, Massachusetts does not tax at all on gross premiums, but bases the tax on "net policy reserves," taxing reserves on Massachusetts policies one-quarter on one per cent alike on Massachusetts home companies and companies of other States operating in Massachusetts. Connecticut taxes one-quarter of one per cent on home assets of Connecticut companies, and for companies of outside States it taxes their Connecticut premiums the same rate that Connecticut companies are taxed in the home State of the foreign company. This is known as reciprocal tax, and is a vicious legislative element that is more properly described as a retaliatory tax.

Reciprocal taxation means for example, that a New York company is taxed in Connecticut one per cent of its Connecticut premiums, because this is the rate required of Connecticut companies in New York State, while an Indiana company operating in Connecticut would be taxed three per cent on gross premium receipts, less losses paid in the State, and a company domiciled in Tennessee would be taxed two and one-half on its gross premiums, because Connecticut companies would be respectively taxed three per cent and two and one-half per cent in Indiana and Tennessee. The final absurdity of the situation is achieved in reciprocal immunity for companies domiciled in States like Wisconsin, where no gross premium tax is demanded at all of outside companies. A Wisconsin company consequently entirely escapes taxation above a nominal license fee, in States like Connecticut in which outside companies are only taxed under reciprocal or retaliatory laws.

Wisconsin overcomes the advantage its home companies occupy in certain other States under retaliatory legislation, by taxing its own companies under the income-tax law of the State three per cent of the Wisconsin gross income, which means not only a premium tax, but in addition a tax upon the earning power of the assets in Wisconsin. The Northwestern Mutual, located in this State, pays taxes in excess of $1,000 per day to Wisconsin. The president of this company this year sent a letter to each of the policyholders of the State to acquaint them with the situation, in which he stated:

> This company has since the year 1898 been compelled to pay grossly excessive taxes to the State of Wisconsin. It paid in taxes and license fees for the year 1907 the immense sum of $367,726.01, more than $1,000 per day. It paid into the Wisconsin State Treasury in the year ending June 30, 1906, a sum greater than was paid by all other life-insurance companies, all fire-insurance companies, all accident and casualty companies, all loan and trust, plank road, boom and river improvement, express, sleeping-car, freight line and equipment companies doing business in this State. It has paid nearly $3,000,000 in taxes to the State during the last ten years. The annual tax on this company in Wisconsin, if deducted from the dividends paid to policyholders in Wisconsin, would amount to more than fourteen per cent of their premiums, *making a rate seven times as large as the average premium-tax rate imposed by the laws of other States.*

While there are differences in the method of exacting life-insurance taxes, the general practice is to exact a tax on the gross premiums collected. For purposes of comparison, all taxes can be thrown to this basis by summing up the total taxes paid in dollars and cents and finding what proportion these taxes bear to the gross premium. An exhibit of this kind has been prepared by the Northwestern Mutual, which is the largest American company operating solely in the United States. During the year 1907 this company received

$28,869,595.24 in gross premiums, and paid taxes amounting to $759,151.48 — 2.63 per cent of the total premium. As a whole this company averaged not greatly different from other American companies in the United States, but the distribution brought about by its peculiar laws was such as to make the taxes to the home State excessive beyond possible justification, and to reduce offsettingly the taxes paid to the other States in the Union. In Connecticut, Illinois and New Jersey, Northwestern Mutual gross premiums, aggregating nearly four millions, escaped taxation entirely, while in all other States fixing a minimum rate of taxation and providing for retaliatory increases, the Northwestern Mutual, of course, came in under the minimum rate. Excluding Connecticut, Illinois and New Jersey, and stating the rates in order of low percentage on basis of gross premium tax, the following variety is produced:

California, Georgia, New Hampshire, New York, Virginia, 1 per cent; Idaho, 1.14 per cent; Oregon, 1.21 per cent; District of Columbia, 1.25 per cent; Vermont, 1.45 per cent; Maine, Maryland, Utah, 1.5 per cent; Massachusetts, 1.64 per cent; Indiana, 1.96 per cent; Washington, 1.91 per cent; Alabama, Arizona, Colorado, Delaware, Florida, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, Pennsylvania, Rhode Island, West Virginia, 2 per cent; Montana, 2.01 per cent; Texas, 2.25 per cent; Iowa, North Carolina, North Dakota, Ohio, South Dakota, Tennessee, Wyoming, 2.5 per cent.

The figures of this table eloquently supply argument for taxation reform, both in the excessive manner in which life insurance is taxed, and in the lack of uniformity in placing the tax. Through this lack of uniformity, States are filching not only from the policyholders of their own States, in penalizing tax upon provident thrift, but are reaching

beyond and exacting tribute from citizens of other States. Wisconsin, for example, takes $365,000 of the total $759,000 paid in taxes by the Northwestern Mutual. Policyholders of this company in other States, representing fourteen times the amount of gross annual premium actually collected from Wisconsin policyholders, pay nearly one-half of their total taxation burden to Wisconsin. Yet, as previously stated, through the operation of reciprocal immunity in other States, the taxation cost to the membership of this company is not greatly different from that of any other large company, although it is less equitably distributed among the contributing States.

Ralph W. Breckenridge, in an address delivered officially before the subcommittee on taxation appointed by the National Convention of State Insurance Commissioners, referred to the inequalities and excessiveness of life-insurance taxation, as follows:

> No other business is required to contribute thus unfairly to the revenue of the State, and as all taxes and losses are paid out of premiums, the policyholders bear this burden. As already stated, the cause of this inequity must be charged to the ignorance of the people and their representatives in the State legislatures of the principles which underlie the business of insurance; but this very discussion is a part of the campaign of education which will not end until an informed and enlightened public insists on taxing insurance companies fairly and justly. . . . It was Charles Sumner who first said that "a tax upon insurance is a tax upon a tax, and, therefore, a barbarism." And the uses made of insurance and the consequent necessity for it have increased many fold since that statement was made.

Mr. Breckenridge refers to Charles Sumner, who was a member from Massachusetts of the Thirty-seventh Congress in session when the United States was going through the throes of the Civil War. Sinews of war were needed, and a

bill was introduced for the government to tax life insurance. Charles Sumner then uttered the words which helped defeat the bill and which are as true to-day as they were in those times of strife:

> The business of insurance, as it seems to me, is peculiar. It differs from other businesses. It is not strictly, if I may say so, a money-making business, but a money-saving business. The primary object of the insurance office is to protect other people and particularly the poor. On this account, it seems to me, that it is entitled to a certain consideration. Now, what is proposed? A tax on the premiums. What are the premiums? The premiums are themselves a tax. The premiums consist of the tax which the person insured pays for his insurance, and now it is proposed to put a tax on a tax. This is the precise case. I state it in this way to simplify it; in order to reduce it, as I may say, to its most naked form.

This is exactly the view taken of life insurance in England. Our British cousins operate under a system of income tax. Not only does England refrain from taxing life insurance, but on the contrary exempts from taxation a portion of a man's income up to eight per cent if used in the payment of life-insurance premiums. Germany, with its burden of militarism, has never in its need for revenue taxed life-insurance premiums. To the contrary, the government has shown a far-sighted appreciation of the benefit to the State from properly-conducted insurance, and has itself made certain forms of insurance compulsory.

About this time in the recital of taxation ravages in life insurance, the question is interposed: "Why, then, is life insurance in America so outrageously taxed in this unprecedented and ununiform manner, and why has this outrage upon the policyholders been allowed to go on unknown and unappreciated by them?"

Both questions can be answered at once. "Life-insurance premiums officially accounted for in annual state-

ments to the different insurance departments present an unusually simple subject for taxation. Exact statements of premiums collected in the different taxing jurisdictions are readily available. Availability has been the taxation undoing of life insurance. A tax levied upon these premiums and exacted from the life-insurance company becomes only indirectly a tax upon the policyholder, and the form and appearance of indirect taxation is ever pleasing to the State legislator desirous of 'plucking the goose to obtain the greatest amount of feathers with the least squawking.'"

Ordinarily State taxes are direct taxes exacted from the citizens of the State upon values definitely established as being individually owned and subject to tax. Federal taxation has taken on the indirect form in tariffs and internal revenue, which directly affect the price of the commodity. Every cigar smoked, every glass of whisky consumed, as well as every dutiable imported article, call in direct increase in price for indirect revenue to the federal government. When the State puts its indirect tax upon the life-insurance premiums, it similarly exacts a toll from every toiler burdening himself with life-insurance obligations — a toll that adds appreciably to the burden. The difference between the State's indirect taxation and the federal government's indirect taxation is that the latter is levied and graded to reach luxuries or place restraint.

Life insurance's indirect tax reaches the money of the widow and the orphan, exempted by law as inviolable from liability for the deceased's debts or his obligations to creditors. It is the money that grades from the small industrial claim, which pays for the lowly grave, that spares to the State a place in its Potters' Field, and to the deceased and the relatives the pangs of ignominy which pauper burial means. On up the scale life insurance means most often

educating the orphan, sustaining the widow, in varying gradations of living, usually, however, below the standard formerly provided.

Through publicity policyholders can accomplish legislative reforms and prevent legislative tax reprisals as no system of lobby has ever done. After all, the tax problem is the problem of the policyholder, and the duty of the administrative officer in life insurance ends with a clear pointing out to the policyholder and the public benefited by the policyholder's thrift, the enormity of a situation imposing this crushing life-insurance tax.

There are other reasons for the life-insurance tax than the availability of life-insurance moneys for taxing purposes and the possibility of obtaining State revenue in this way without at once arousing the victims of the tax. Some few thoughtful men — a negligible few among those who have studied the subject — contend for a continuance of life-insurance taxation because of the accumulations of asset wealth held by the different companies, and in support of a belief that taxation should be equalized to bear upon all wealth. This contention is largely based upon misunderstanding of the nature of life insurance and of the fact that the assets of life insurance but offset liabilities for "reserves," necessary under level-premium life insurance to keep the rates from increasing with increases in age, and otherwise to mature at face value the obligations of the company.

Of course there is in life insurance a sprinkling of a rich patronage, just as there is in savings banks, but even among this patronage the insurance policy stands itself as a tax.

Life-insurance funds are taxed in so far as they are invested. Real estate owned by life insurance pays the same tax as real estate owned elsewhere. If the whole assets of

a life-insurance company were in real estate or other physical forms of wealth, the entire wealth would be taxed under general property-tax laws in the communities where the property was located, in addition to the indefensible premium tax. However, all life-insurance funds are not in physical wealth, as it is desirable they should not be. Much of the money is constituted in rights, such as mortgages, bonds and stocks. While these rights are not directly taxed, they none the less in turn represent physical property in railroads, plants, utilities, land; all of which is taxable as physical wealth, with indirect effect upon the value of the shares or mortgages.

Of course it can be maintained, for what the argument is worth, that life insurance escapes a certain portion of the tax of its physical assets, since under our general property-tax system both the physical property is taxed and the evidences or rights to this property, as represented in bonds, stocks, and the rights and mortgages, are also taxed.

No life-insurance official of importance has ever objected to or contended against life insurance being taxed upon its real estate or other physical property, and being taxed in license and fees or otherwise, the necessary sums to support efficient governmental supervision of the business. Beyond this, however, it appears that a tax upon gross premiums can not be justified in the laws and practices of this land, in the precedents established by other enlightened countries, or in ethical considerations of public policy. Since this gross premium tax can not be legally levied under the taxing powers of the State, it is usually imposed under the police power, in the form of a privilege tax, or a franchise tax, for the privilege of transacting business in the different taxing communities.

Life insurance has no interstate privileges save what the

different sovereign States bestow upon it, and it is therefore within the police power of the several States to lay down stipulations in taxation and fee requirements, as precedent to doing business in that State.

"A State has the power," said Ralph W. Breckenridge, chairman of the insurance committee of the American Bar Association, "to make the gross annual premium of any company the basis of exactions in the nature of license fees; but such an exaction penalizes the policyholders and puts an added burden upon thrift, economy and foresight in order that the taxes of those who have neither thrift, economy nor foresight may be reduced. Why penalize insurance? It is not an outlaw."

Mr. Breckenridge made this statement, as he made the other statements previously credited to a subcommittee of State insurance commissioners considering the question of life-insurance taxation. Later this subcommittee reported to the 1908 National Convention of State Insurance Commissioners with recommendations:

First. That the rate of the premium-income tax, if one be imposed, shall be fixed by methods which shall give some assurance of equality of rate with that of other taxpayers. For, whoever may object to the entire repeal of such laws certainly will not object to so framing them that the taxes exacted from life-insurance corporations will not exceed those exacted from other taxpayers. . .

Second. All laws authorizing taxation of premium income in counties and municipalities as an item of property should be repealed.

Third. All laws and ordinances authorizing occupation or license taxes in counties, cities, towns and villages should be repealed.

Fourth. Laws of the States imposing fees and licenses should be revised and graduated upon an equitable basis, so as to raise therefrom adequate funds for the maintenance of the insurance department within the State. The fees and licenses so charged should be enough, but not more than enough, to pay the expenses

of maintaining the insurance department. They should be so regulated as to accomplish this end, but no more.

The report then continues:

The adoption by all the States of these remedies would cure a great evil, and relieve the several States of the charge fairly made against them, namely, that by this system of taxation they increase the cost of insurance or reduce the amount thereof, with little more reason or little more justification than the misappropriation of such funds for political campaign purposes, or the use of them in extravagance of management.

As evidence of the unanimity of opinion on the subject from men of the understanding and unbiased type of the State officials supervising the business, the report of this committee was adopted by a vote of the different States, with only four negative votes registered against the report. These votes were from Texas, South Dakota, South Carolina and Wisconsin. The representative from Wisconsin afterward informally explained that his vote was registered against the adoption of the report because of the method of taxation rather than because of the intended reduction in taxation, as the Wisconsin representative believed that such taxation as is exacted should be placed upon the reserve values. Massachusetts places its tax in this manner at this time. The result of so predicating the tax is greatly to involve the system, and if the same total amount of taxation were exacted from the different companies and thus eventually from their policyholders, it would merely mean that the distribution among the companies would bear more heavily upon policyholders constituting the older companies with the larger reserve accumulations, and be consequently lighter where the business averaged shorter time in force, or with companies with lower reserves.

In the exhibit of the Northwestern Mutual, to which previous reference has been made, the Massachusetts tax of

one-quarter of one per cent of the net policy valuation amounted to practically the same per cent of the gross premium, when put on the basis of a gross premium tax, as the average gross premium tax exacted by other States taxing the company direct upon gross premiums.

In December, 1908, at the invitation of the Association of Life Insurance Presidents, there convened in New York a conference of insurance executives and State officials supervising insurance, to consider the matter of life-insurance taxation reform. One speaker, the president of the Prudential Insurance Company, crystallized the conclusions that life insurance was taxed excessively and unfairly into a call for action to strive in coming legislatures for a reduction of the gross premium tax rate to one per cent as a uniform tax requirement in the different States. This, it will be remembered, is the rate now required by New York and certain others of the leading States. A uniform one per cent gross premium tax would cut the burden in about half to the policyholder, and would make more than reasonable concession to the element who think life insurance should be taxed. Moreover it would remove the inequities of non-uniform tax rates ranging from one per cent to three per cent in the different taxing communities.

Remembering that for a generation life insurance has contended for uniformity of taxation among the different States at a minimum tax rate, during which time taxation has increased, becoming more non-uniform, the situation would be discouraging were it not for the fact that the power of publicity is being utilized to arouse the voice of the people in tones that must be heard and heeded. The difficulties of the situation are presented in the apathy of the policyholder and in the reluctance of States voluntarily to reduce revenue indirectly exacted from the policyholder,

which reduction would not be any larger to the policyholders of the domestic State than would be the case to the policyholders in all other States.

For this reason the writer has had a growing conviction that life-insurance taxation should be directly assessed against the policyholder, in accordance with the rate in the taxing community in which the policyholder lives. If this is not done by the State, as the State levies all other taxation directly to its citizens, it might be done by the companies. This could be accomplished with the mutual companies in apportionment of dividends, which take into account the varying taxing rates, and would accordingly determine the size of the dividend with reference to the tax rate. This plan has been attempted in slipshod fashion by one or two individual companies, in communities where the tax was particularly excessive, but discontinued because no half-hearted individual methods of this kind could, in the nature of affairs, be made successful.

A better method of directly apportioning the cost of tax to the different taxing communities, which would embrace both the dividend companies and the nonparticipating companies, would be to make the tax a direct addition to the premium. This could be done by quoting a premium minus taxation, to be used uniformly through the United States. Insurance would thus be supplied at exactly the same cost in every place in the country, and the burden of this cost as increased by greedy State demands would rest entirely upon the policyholders of the State obtaining the revenue, and would be directly apportioned to the State's avarice. Not the least of the benefits of such a system would be the absolute defeat of vicious retaliatory tax measures by doing away with the vicious discrimination between States that gave them being.

A company adopting a plan of direct taxation could at once reduce its premium by two per cent or better on all policies. This would mean reduced insurance cost to the States taxing less than the average, and increased insurance cost in States taxing more than the average.

The company quoting rates minus taxation, and collecting at the same time the tax required, would furnish cheaper insurance in the taxing jurisdictions where the tax rate is under the average, and thus have an advantage in competition, an advantage which would be offset by having to exact larger cost than the competing companies in taxing jurisdictions above the average in rate. So far as this is an objection, it could be overcome by a concerted action among the companies, which concert could well force a sizable opposing minority to adopt the same system.

A life-insurance company receives for the insurance benefit it furnishes to the policyholder, the premium the policyholder pays, minus the taxes required. Excluding real-estate taxes and taxes on physical wealth, all taxes against life insurance can be reduced to a tax upon the gross premium, leaving the insurance company or association, as a price for its insurance, the difference between the gross premium charged and the premium tax. Consider, for example, three policyholders of exactly the same age, each paying a premium of $100 to the Northwestern Mutual, a Wisconsin company, on exactly the same form of insurance, taken out at exactly the same time; one being a resident of New York State, another of Pennsylvania and the third of Iowa. The Northwestern Mutual pays a one per cent premium tax in New York; as a result it nets $99 as a premium from the policyholder of New York; from the policyholder in Pennsylvania, where there is a premium tax of two per cent, it nets $98, and from the policyholder in Iowa it nets

$97.50, because in Iowa there is a two and one-half per cent premium tax. In other words, the company furnishes the same insurance to all these policyholders, from whom it receives as a net premium a sum that discriminates in cost, just as the tax rates of the States discriminate in tax. It appears with the mere statement that if a State wishes to exact heavy taxes, it should exact it from its own peoples, and that if a State wishes to lighten the burden of taxation to policyholders, this burden should be directly lifted from the policyholders of its State in appreciable reduction of insurance cost and not in the imperceptible reduction that comes from a thin spreading around throughout the company's entire field of operation, no more to the policyholders of the reducing State than to the policyholders constituting the citizenship of the most extortionate State.

While State laws everywhere prohibit discrimination between policyholders of the same conditions and expectation of life, it does not follow from this adjunct that a company must discriminate in its cost of insurance, in order to equalize the State's own discrimination as compared with other States in the matter of obtaining taxing revenue.

Against this plan it has been urged that a legislature might prohibit, under its police power, the licensing of a company that would directly apportion taxes to the policyholder, which means, of course, legislatures in those States where the taxing rate is above the average. It is scarcely to be expected that the legislators in a State taxing at a minimum tax rate would object to the policyholders of their State obtaining, through a system of direct apportionment of taxes, reduced insurance cost over that produced by the present system. Therefore, the legislature to consider would be the legislature of the States in which taxation is at a maximum, or at least above the average. Such State

would then be in the position of using this police power to try to exact taxes from citizens of other States.

The situation with the legislature would then be: "Yes, we are aware that a direct apportioning of taxes preserves uniformity of cost to the policyholder, insomuch as he is furnished insurance at the same cost from every taxing jurisdiction, and that the variation in price that supplies cheaper insurance in other States is not brought about by any variation in actual insurance cost as between citizens of the different States, but is brought about solely because our State has decided to exact a heavier tax upon the policyholders than other States. We therefore object to your method, not because of its equity, but because the policyholders of these other States, taxing at a minimum amount, do not help contribute to the taxes that we would require from policyholders of this State, in addition to paying in full the taxes required by their own States."

Certainly no body of American legislators would enact a conclusion of this kind into State law.

Numerous objections to the plan, and counter-advantages too tedious to relate, suggest themselves upon reflection, as does the possible propriety of excluding from this treatment industrial life insurance, where the premiums are paid in weekly instalments, in the same way that industrial life insurance, because of its complicated character, is exempted from the application of many of the life-insurance laws.

The conclusion of a review of the taxation situation brings out:

First, that life insurance is excessively and uniustly taxed.

Secondly, that the tax is not uniformly, evenly or fairly distributed.

These two considerations commend to all fair-minded

people, both for its moderation in demand and for its fairness between the different States, the recommendation that life insurance be uniformly taxed at a rate of one per cent of the gross premium in all taxing jurisdictions.

Self-interestedness of legislators reluctant to replace revenue raised from life insurance by a tax distributed directly where tax can better be borne, and the general taxation needs of the State, must all be taken into account in summing up probabilities for attaining uniform legislation at a maximum tax rate of one per cent.

The proposition of a direct apportionment of taxes is offered finally in this review as a possible, and possibly a necessary, way to drive home the fact that the indirect tax upon life insurance is not only removed from the abstractions of a tax against a corporation, to the concrete position of being a tax against the policyholders, but may thus be further segregated to be a tax upon that portion of the policyholders constituting the citizenship of the taxing State.

UNIV. OF
CALIFORNIA

UNIV. OF CALIFORNIA

WALL STREET, NEW YORK.

WALL STREET, NEW YORK,
America's Investment Mart.

CHAPTER XI.

THE STEWARDSHIP OF THREE BILLIONS.

WHEN figures get beyond certain huge proportions, it is common to disregard their true importance through failure to distinguish relative values, just as the southern negro imported to a northern clime remarked of the temperature:

"It ain't no use to keep count after it draps to zero; it can't get no colder nohow."

Life-insurance assets total up to three billions in 1908 — an almost inconceivable sum. Ten years ago, life insurance had only one-half this wealth, and yet its assets of a billion and a half were then equally difficult to appreciate. Within the next ten years, life insurance in all probability will again have doubled its asset wealth, and have under its trust six thousand millions, which is another way to describe six billions of dollars.

"Money is power," runs the truism, and life-insurance moneys as compared with millions and billions invested in avenues of commerce and industries may be said to represent concentrated power. A billion dollars in a steel trust, or in a combination of railroads, represents mileage, plants, stocks, rights and other forms of wealth not readily convertible, while life-insurance wealth possesses the multiplied power that comes from a high order of convertibility.

Although life-insurance figures run to almost inconceivable sums in the aggregate, segregated among the twenty-five million policyholders in the United States, the average

policy is seen to be less than $600, and the average amount of assets held to the credit of each policy about $120. Life insurance is truly the wealth of the poor. Its mighty accumulations produce abstract problems of colossal wealth, but the concrete must never be forgotten — the concrete of the modest prudence of the individual policyholder.

The investment of these sums to secure absolute safety and the greatest amount of earnings consistent with true economy is a vital question, affecting not only the welfare of the policyholders, but the whole American public as well. Devotedly designed for the widow and for the orphan, it is of first public import so to safeguard these funds that no man or group of men may ever handle them for self-aggrandizement that must jeopardize the security and subtract from the earning power.

No body of men in America more than the men who to-day constitute the management of life insurance and its active agency forces, welcomed the legislation that eliminated high finance from life-insurance investments by investment laws as they now are. To-day life insurance must purchase and sell in direct individual transactions, unassociated in joint accounts or in syndicates. Securities bought outside of the syndicates cost more, but who will say that they are not worth more to life insurance?

Possibly many will be surprised to learn that the actual result of the much-condemned syndicate and joint accounts in the Big Three life-insurance companies operated to the actual profit of the policyholder. This, despite the fact that in some of these companies the syndicate, or joint accounts, used in the purchasing of securities, also operated — or were especially designed to operate — to the benefit of individuals connected with the companies. The number of companies in which these high-finance methods were in vogue were

relatively few, and the number of the officials actually in sympathy with such methods were relatively fewer.

It can truly be said that life insurance, on the whole, has profited twice by the syndicate or joint account ventures: first, by the money gains represented to the policyholders, and secondly, in the prohibition of these ventures before the same could become a general menace.

There is no room for high financiers in life insurance, and no legitimate field for high finance. The laws of the different States wisely restrict the investment of life insurance to lines of approved securities of undoubted stability and value. Life-insurance moneys must be invested in bonds of approved kind: government bonds, municipal bonds, public-utility bonds, bonds of selected corporations of undoubted solvency, first-mortgage real-estate loans or collateral loans upon pledges of such investments, or upon policy loans as contracted. In addition to this, the company may invest in real estate necessary to the conduct of its business, and take over such real estate for temporary holding as may come to it through foreclosure of mortgage loans.

Here is the account in dollars, being a compilation from annual statements rendered as of date December 31, 1907:

Real estate owned	$ 169,968,545.00
Bond and mortgage loans	921,166,712.00
Bonds owned	1,280,359,719.00
Stocks owned	133,137,396.00
Collateral loans	46,296,378.00
Premium notes and loans	348,458,980.00
Cash in office and banks	67,345,019.00
Net deferred and unpaid premiums	47,318,707.00
All other assets	38,680,897.00
	$3,052,732,353.00

The list is not long, but it is big with the bigness of supplying the larger part of the estates of all citizens of our country who leave anything behind them for their widows, their orphans, or their other dependents.

Considering the chief items of this list in order, real estate comes first. In asset value it is actually less than owned five years ago, when life-insurance assets were but two-thirds present size. This is as it should be, for real estate has not proved a profitable venture for life insurance, even when the advertisement incident to owning showy buildings has been given due weight. Without the facilities to manage improved real-estate property, the companies have made a sorry showing as a whole with the real estate owned throughout the country. Upon this real-estate item of one hundred and seventy millions, the gross rental was approximately eleven million dollars during 1907, with expenses, taxes and repairs amounting to sixty per cent of the gross returns, leaving a net earning rate of about three per cent, and this on the basis in many cases of holding values largely reduced by generously charging off depreciation as a ledger loss. Some companies have been more fortunate in their real estate, in obtaining greatly more than the average rate given, but it follows from this that others have been less successful, thus bringing the rate to the low average stated.

Massachusetts' laws provide in this respect that "no holding of real estate shall be given a higher value than would be adequate to yield at three per cent annual interest the average amount of its net rentals for three years next preceding," allowing the insurance commissioner a wise discretion in varying this rule for exceptional cases. The laws in other States recently enacted tend to prohibit further investments in real estate not necessary to the trans-

action of the company's business, and provide that real estate previously acquired, or which may be acquired through foreclosure of mortgage loans, shall be disposed of within a fixed number of years, with the discretion to the insurance commissioner to vary the rule where a forced sale would prove inadvisable.

The matter of real-estate investments is one of dwindling importance, as the holdings are now but five per cent of the invested assets, having reduced to that sum from eight per cent in 1902. They will continue under the new laws to reduce to a negligible item.

Bond and mortgage loans represent, on the contrary, an investment increasing both in actual and in relative size and in deserved popularity. The amount of these investments during the five years ending with 1907 have increased eighty per cent, and represent an investment wherein maximum security is usually combined with maximum interest rate. With most companies, mortgage investments are made only in large cities and on improved property, while with a few companies of the West, farm-loan mortgages have been freely purchased. Mortgage loans are particularly valuable in popularizing a life-insurance company as tangibly investing its money in territory in which these loans are placed. Of course, investments in bonds, such as railroad bonds, contribute no less to the advancement of the communities in which trackage and plants are located, but lacking the tangibility of mortgage money, they lack also in arousing local appreciation.

There are objections against mortgage loans which tend to keep down the aggregate volume of these loans as a relative portion of the entire assets. Mortgage loans — and particularly the farm-mortgage loans — require intricate organization if the company is to invest through agents of

its own, and where companies, remote from the loaning points, have purchased loans through unfamiliar sources, the quality of the loans has too frequently proven unsatisfactory. On the other hand, where the company would maintain loan agents of its own, expense is involved that more or less offsets the larger rate realizable from this class of investment.

Companies domiciled in the West, obtaining their loans directly or through sources with which they are in personal touch, have been most successful in farm loaning, and constitute the top-notch interest-earners among the companies.

There is a limit to the amount of farm-loan mortgages available, on conservative valuations, not to exceed one-third, or at most one-half, of the assessed value of the unimproved property. It would appear, however, that the prospective loan market will permit of profitable investments in mortgage loans that will maintain the ratio which they now have, of thirty per cent of the total assets, as these assets may grow within the next decade.

Another objection registered against mortgage loans is the lack of quick convertibility, a consideration that tends to discourage disproportionate investments in mortgages and suggest the advisability of a good line of bond holdings.

As the character of bonds in which a company may invest is restricted to conservative lines by statute, the chief points to be considered are convertibility and rate, though the character of the security behind the bonds is never overlooked, even though the permissible list is a highly preferred one. Government bonds are, of course, of first quality and readily convertible, but the rate on these bonds is usually too low to make advisable any relatively large holdings, where other forms of bonds of undoubted security can be obtained to net a much better yield. Municipal bonds,

where abundantly good and convertible, yield returns only less meager in degree than "governments," and where a municipal bond yields a good rate of interest, the quality of the security must be at once suspected. Public-utility bonds represent available life-insurance investments, and are advisable investments in accordance with the physical values and rights behind the bonds, the assured earning powers of the corporations and the convertibility of the issues.

Railroad bonds and bonds of industrial corporations listed on the chief stock exchanges, representing unquestioned values, are favorably considered because of their larger earning rate and ready convertibility.

No inflexible rule can be set up for fixing the security of bonds or determining what bonds of solvent corporations can safely be invested in and what not, or what class of bonds invariably represents preferred security. Any number of expedients, such as naming the particular securities that are considered good, fixing minimum earnings for a minimum number of years preceding, dividing along lines of what bonds carry mortgage rights and what not, have all been found unsatisfactory as not unfailingly applicable.

After struggling with this problem the Armstrong Investigation Committee came to the conclusion that it would be unwise to amend the New York laws to set up any such arbitrary distinctions between the bonds of solvent corporations.

The Armstrong conclusion upon this subject is worthy of reproduction:

It is difficult to draw any satisfactory line with reference to investments in negotiable bonds. It would not be advisable to restrict the investments of life-insurance companies in the same manner as those of savings banks. The securities available for investments under such limitations would not be large enough in

amount to furnish a sufficient field for the profitable investment of the large accumulations of insurance corporations. It has been feared that such a restriction would prove to be too severe, and might operate so far as to increase the demand for the favorite securities as to preclude a satisfactory rate of income. After such reflection upon this subject, the committee is of opinion that no satisfactory line can be drawn with reference to investments in bonds, other than collateral trust bonds, without hampering the companies in the enjoyment of that reasonable freedom of investment necessary to insure the return upon which the calculations of their risk are based.

There are two points in this conclusion of the Armstrong Committee that are particularly thoughtful and call for comment.

The first of these is contained in the concluding words of the recommendation, that refer to interest assumptions in the life-insurance premium. The interest assumption in calculating a premium is vital with a great deal of the importance that attached to conservative mortality assumptions. A life-insurance company that would calculate its premiums upon a mortality rate less than what it would afterward realize, would be in no worse position than a life-insurance company that would assume to earn three and one-half or four per cent and then fail to net such interest return. The Armstrong recommendation serves notice that safety of the life-insurance companies is involved in allowing them the freedom necessary to make good at least the assumed interest rates, in order that they may make good their very contracts.

The other important message in this Armstrong recommendation indicates an essential difference existing between life-insurance investments and banking investments. Other differences become apparent upon reflection. A life-insurance company is necessarily a company dealing in futurities

in the sense that the maturing of its obligations by death, or otherwise, reaches into the more or less distant future. With the life-insurance company, its investment rate must be assumed at a conservative figure, because it extends over the entire duration of the contract, whereas a bank need only fix the temporary interest rate, as this is a matter open for adjustment between the bank and the customers. Finally, the life-insurance policy is a long-time contract, while the bank deposit is really not a contract at all, but a transaction of temporary convenience subject to changes in the rate of interest as the bank sees fit, and subject to termination by the depositor in the withdrawal of the deposit immediately, or upon a stipulated short notice.

Regarding the interest rate itself, it is almost humorous to note how the rate has advanced within the last ten years, in face of the contrary prophesies of those considered best qualified to prophesy.

Despite the most learned dissertations, based upon the periods of invention, discovery, manufacturing and expansion, that are figured out first to increase the interest rate and then be followed by a harvest of prosperity that in turn reduces it, and despite other most plausible deductions, the contemporary interest rate has shown a persistent tendency to defy alike forecasts of economist and prophet.

Some ten years ago, when the companies began to doubt whether four per cent was any longer a conservative interest assumption for life insurance, the late John A. McCall, then president of the New York Life, gathered together a symposium of opinion from many of the best known banking authorities in the United States. These men were then of the opinion that three and one-half per cent was as large a rate as it would be safe to assume, and that three per cent assumption would probably be the most advisable for life

insurance, almost unanimously concluding that the rate was steadily, though gradually, declining. As a matter of fact, the interest rate has increased instead of reducing further, as was immediately anticipated. The interest pendulum in the impetus of its downward swing had at that very time passed the low point in its arc and was swinging upward.

There is a point in life insurance beyond which conservatism in basic assumptions does not best conserve the interest of the policyholders, and it would appear that over-conservatism as to assumed interest rates, while much less deplorable than insufficient conservatism, is none the less calculated to increase the premiums and the reserves of policyholders to an extent that calls for unnecessarily large outlay for insurance during the earlier years. For example, an interest assumption lower than three per cent would at this time be unjustifiable and represent conservatism run mad at the immediate cost of the insuring public.

There are other forms of conservatism in life-insurance investments which call for extremes of prohibition, thoroughly advisable in life insurance, though obviously not elsewhere. This comment covers the ownership of stocks as life-insurance investments. Though stocks have proven profitable to the companies in point of earnings, they inherently include an element of speculation which serves to militate against them as life-insurance investments. But above all, the ownership of stocks is now considered inadvisable, because of the control of subsidiary corporations which this ownership may entail.

Theoretically, there is much to be said in favor of life-insurance ownership of subsidiary corporations such as banks and trust companies, for the company must of necessity patronize these banking institutions, and it may then be argued, why not obtain the additional profit of the middle

man by owning or controlling the institution? Moreover, the dominating power of an institution should mean preferred service to the owners. Giving all these items due weight, and adding to them the fact that such ownership has done much in the past to forward cheap life insurance to the policyholder, it must be concluded that such ownership carries dangerous temptations in the power it gives those in command of life-insurance investments to make a round-about profit for the subsidiary corporation whose success is thus assured.

In theory, the life-insurance company would advantage itself from the ownership of the subsidiary corporation, but in practice the subsidiary corporation might, with the willing connivance of the men in control of the company's investments, advantage itself from the life-insurance company where the men controlling the investments might be more interested in benefiting the minority stockholders of the subsidiary corporation than they would be in unselfishly advancing the interests of the life-insurance company.

It is a high and lasting compliment to the men in control of life insurance that subsidiary corporations have, as a whole, not been used for unworthy purposes. In the few instances in which they appeared in the investigation to have been so perverted, the responsible miscreants have rightfully been eliminated from the business.

Germany was the first country to pass rules prohibiting life-insurance ownerships of stocks, and it was this German rule that first brought the prohibition into the United States. At that time but one of the American companies operating abroad, the New York Life, decided to dispose of its stock and conform to the requirements of Germany. The other two companies, the Equitable and the Mutual, were strongly abetted by public opinion in their determination not to do so.

Public opinion supplemented by the Armstrong investigation seems now persuaded that, while the ownership of stocks has proved profitable in the past, stocks are not an advisable investment for life insurance. This public opinion has been given statutory force in many of the States where new laws, as in New York State, follow the German prohibition.

Stocks owned by the American companies in the exhibit given, aggregate one hundred and thirty-three million dollars, about four per cent of the total assets, a percentage that will dwindle to the disappearing point.

A little over one per cent of the companies' investments are in collateral loans covered by deposits of securities previously mentioned as those in which a company may legally invest.

Allied with collateral loans are premium notes and loans on policies, which are becoming an increasingly important element, representing now about eleven per cent of the total assets, and amounting to three hundred and fifty millions of dollars. To distinguish between premium notes and loans it should be remembered that actual premium notes are an inconsiderable sum, and that these notes are in all cases only admitted as assets as they are secured against the reserve values of the policies.

Policy loans are a matter of policy contracts, stipulating that a definite amount will be loaned the policyholder, upon request, during the various policy years, at a fixed interest rate. The amount of this loan is usually the available cash surrender value. With some companies, it is the available cash surrender value at the time of making the loan, and with other companies, the increased cash surrender value one year hence, deducting a payment of one yearly premium. Any company that is under contract to pay a stipulated cash

surrender value can well afford to loan under ordinary conditions the same sum upon a loan note, pledging the policy as security.

No asset in life insurance is better secured than a policy loan, because it offsets liability directly charged against the company as reserves under the contract. Policy loans are now commonly made at five per cent, and, as the loan is placed practically without expense to the company, it is a net investment at that figure.

Cash loans and surrender features are at variance with the long-term contract features of the insurance policy, and perplex the life-insurance situation, tending to ally insurance more closely to banking than appears on first survey. In the opinion of many this is an unfortunate feature and one that should be safeguarded by stipulations calculated to discourage policy loans and cash surrender values except for loaning the premiums to continue the insurance. It is not, and should not be, within the designs of policy loans to furnish money in times of money stringency at less than market rates for market speculation.

Limitations of some character were particularly suggested in the increased demand for policy loans made upon the companies during the money panic of 1907. The impossibility of getting money from banks or trust companies during this period called attention of policyholders to the policy-loan and cash-surrender features of their contracts. Policy loans were available upon these contracts at five and six per cent interest, when the price of money was ranging much higher. As a result tremendous loan demand was made upon the companies.

Policyholders in many instances became aware for the first time of the tremendous value of loan features in life-insurance policies, and some companies became increasingly

aware of the degree of convertibility and the quantity of cash balances that it might be advisable to maintain where policy loans at agreed interest rates may offer available money at much less than the current market rates. The president of one of the largest life-insurance companies in the country, a financier of unquestioned foresight and integrity, considers the lesson of the panic of 1907 to be that life-insurance policies should not stipulate an interest rate for policy loans, but should leave the rate open to be determined by ruling prices of money. In this way a life-insurance company could hedge against the position of supplying money at less than market prices, and having its policies utilized, not in the original intention of accommodating policyholders in time of need, for payment of premiums or otherwise, but offering available money for reinvestment and temptation to pervert the insurance from its original protective mission.

The 1907 panic supplies a striking commentary upon the relative superiority of life-insurance financiers in investing to cover obligations and fit investments to circumstances. Banks and trust companies, whose moneys were accepted for the immediate demand of patrons, withheld these moneys from them in absolute conflict with the terms of deposit and the laws of the land, while the life-insurance companies, only incidentally having loan features to their contracts, met all demands in strict accordance with the terms of their contracts.

While life-insurance money must be promptly invested, because its theory assumes the compounding of its moneys, it is absolutely mandatory to retain cash balances for immediate expenditures and against the necessity of otherwise unexpectedly being called upon to convert securities.

The companies hold about two per cent of their total

assets in available cash; this sum being for the most part on draw, commands only a low interest rate, about two per cent. These items, together with uncollected premiums outstanding and unpaid instalments of annual premiums, and all other assets of minor account, aggregating less than three per cent of the whole invested assets, constitute the entire investment of life insurance.

Compilations made from the Massachusetts and Connecticut reports show life insurance as a whole earned 4.73 per cent upon its investments during 1907, which is a slight increase over the years immediately preceding. In 1906, 1905 and 1904, the earnings were respectively 4.63, 4.57 and 4.59 per cent, according to the Brown Book of Life-insurance Economics. To otain these rates no sacrifice has been made in the quality of the investments or in the character of loans happily held to high standards by laws wisely limiting the investment within margins as narrow as is advisable, considering interest assumptions necessary to realize.

New legislation has not in all cases been of an equally intelligent and beneficial type, and thought needs be directed to reforming some of the reform ideas propagated since the Equitable embroglio brought on the needed legislative investigation of life insurance.

One effect of the investigation was to arouse national indignation that a group of New York financiers would appear to have profited through handling the insurance moneys of a whole country. While in isolated cases this indignation was grounded on fact, it was none the less generally misdirected, so far as it created sentiment for compelling through legislation local investments of life-insurance moneys.

Wall Street and the huge New York banking houses commonly understood by that term are naturally investment

sources for eastern money, and the fact that money was handled through these houses in purchases of bonds and mortgages does not belie the fact that it covered investments in physical properties, buildings, railroad mileage, shops, rolling stock and the other tangible property behind the bond and mortgage rights, which spread over the face of the whole country and the whole civilized map.

Every man has constitutional right to spend his own money in his own way, and if a policyholder wishes to keep his money at home, in the sense that an investment is to be made through local avenues, it is usually within his province to patronize local institutions or other institutions so investing their money.

The State has no excuse for legally compelling the investment of policyholders' funds in its home securities. If these investments are of a quality that need legislative support in order to make a market for them, they are confessedly disqualified from being fit investments for life-insurance funds. Instead of being a benefit to the policyholder, legislation of this character, under such circumstances, is an infamous imposition. If these State investments are good enough to command purchasers, they are reasonably sure to receive a liberal patronage from life insurance. Even if the securities are of undoubted quality, but of limited volume, it is inadvisable to compel life insurance to invest in them, because this would create an artificial market for such investments that would be ruinous as to rate.

Yet Texas passed a law of this kind, the Robertson Law, which calls for the investment in Texas of three-quarters of the reserves held upon Texas policies. This law was enacted in a particularly odious form, carrying a deposit feature which forced the deposit of Texas securities in certain

counties in Texas, where they were to be made the subject of a county tax. One of the chief reasons advanced for the Robertson Law was to obtain extra revenue from taxing these enforced deposits, wholly regardless of the fact that this tax was an extra burden upon the already overtaxed policyholder and an added cost to his insurance.

As a result of this law, which has since been modified by the Legislature of 1909 to eliminate the tax feature, nearly all of the companies of other States operating in Texas withdrew from the State. Since similar laws have been agitated in other western States, it is of more than ordinary moment to understand why legislation of this kind is undesirable and predicated on incorrect and vicious principles.

Grover Cleveland touched upon this feature of compulsory life-insurance investments within the different States when he contributed, among his last writings, the following:

> The State does not propose to stand behind or guarantee such securities as the companies must purchase under such legislation. It does not propose in any way to protect the companies against exorbitant prices easily exacted from the necessitous or forced purchaser. It is not contemplated that the securities thus forced upon the companies shall constitute the fund to which the policyholders of the State must look for the payment of their policies, nor that it shall be even the primary fund for such payment. It matters not how many States pass similar statutes (as a number threaten to do), nor how much of the resources of the companies may be actually impaired under this aggregate operation; nor does it matter whether these forced investments are good or bad, whether they are quickly covertible, or not convertible at all, whether they are in the custody of the companies or of the officers of the several States, as is in some cases proposed — in all contingencies, policies and premiums must be paid as they accrue. None of us have, in our biblical reading, discovered any incident which smacked more of unfairness and oppression than the exaction by the strong that those at their mercy should "make bricks without straw."

Mr. Cleveland concludes:

Confronted with such a menacing invitation to popular thought, is it not wise to consider the importance of protecting and preserving in our States the spirit of brotherhood and forbearance, which the fathers of the republic evidently believed would characterize their legislative treatment of the citizens and interests of their fellow members in a great nationality?

Another thought for legislative consideration is summed up in the need for a law which would put life-insurance bond holdings upon a value determined by the effective interest rates for which they are purchased, instead of subjecting these assets to market fluctuations, by rating them as at present according to current stock-exchange prices. This proposed "amortization" means that a bond purchased at either a premium or a discount would carry an asset value that would represent the true value of the bonds when the interest returns are considered in connection with the fact that the bonds will mature at face value and not at the purchase value.

Life-insurance investments are designed for permanent holdings, and not to be purchased and resold for stock-jobbing speculation. It is therefore unreasonable to figure the value of life-insurance holdings on a basis of market values fluctuating with market conditions.

In 1907, at the time of the money panic, all securities reflected money scarcity in their low market values. These low market values were everywhere recognized as being the artificial product of temporary conditions. Yet life insurance was forced to list its assets as of December 31, 1907, in accordance with the low artificial values then fixed for bond holdings by the last sales on stock exchanges, utterly ignoring the fact that the market conditions were freak condi-

tions, that the bonds were paying exactly the interest returns that they had been purchased to pay and would doubtless mature exactly at the value and date at which they had been purchased to mature.

During the succeeding year these securities reacted back toward normal prices. Consequently abnormal and fictitious asset gains are shown in company statements for the year ending December 31, 1908, just as the statements of 1907 showed fictitious losses in values that more than wiped out the margin of unassigned funds contemplated for the larger companies in the perilous restrictions of New York laws.

Governor Hughes has taken heed of this unfortunate condition in his message to the New York Legislature. Pursuant to recommendation of Governor Hughes, the New York Legislature, in the 1909 session, amended the laws to permit of the use of amortized bond valuations that eliminate the danger to a company's solvency through abnormally depressed market conditions compelling gross undervaluation of securities. Superintendent Kelsey's last report to the legislature also contained recommendations for amortized bond holdings, to which he coupled a recommendation that the contingency reserve of these large companies be fixed at a minimum point of security, and that the new legislation which served to limit the maximum security of a life-insurance company be repealed.

Previous life-insurance legislation has been controverted in the provisions of these new laws limiting company security. This limit of security was brought about by limiting the amount of unassigned funds which any company could hold. Operating with laws that compel the valuation of permanent investment at current market prices, the minimum surplus provision of the new Armstrong laws would, and already has during the panic of 1907, put some of the

large life-insurance companies, which are without doubt the most sound and solvent institutions in the Union, upon a basis of technical temporary insolvency.

With the abolishment of the deferred-dividend system of retaining the policyholders' surplus for long periods, all participating life-insurance companies are on a basis of annual-dividend competition. Clearly dividend competition can be expected to remove any necessity for limiting the amount of unassigned funds retained by mutual life-insurance companies, and to the contrary appears to call for alert supervision to keep the struggle to excel in dividend payment from indulgence that saps needed company strength.

Safeguarded by wise life-insurance laws which restrict in general classification the securities in which life insurance may invest, life insurance has been further secured in the competent exercise of the discretion allowed to investment managers.

Life-insurance investment laws have recognized with a force that does not appear in certain other forms of life-insurance legislation, the fact that the details of management must be left for expert trade competency, to select among the permissible classes of investment and determine the proportion to invest in the different forms of permissible securities. The investment laws recognize that these details can not be predetermined and should not be subjected to arbitrary and inflexible legislation.

Perhaps no higher testimonial could be paid to life insurance in the matter of discharging its investment stewardship, than the unconscious tribute of one of the country's former great financiers, Frederick D. Tappen, twice president of the New York Clearing-house, who died, leaving behind a will directing his trustees to invest the funds of his estate in such securities only as were owned by the largest

life-insurance company in America, which he designated by name.

With the few legislative corrections that would substitute amortized bond values for market values; that would abolish restrictions that operate against the historic precedent of limiting weakness instead of strength; that would repeal the Robertson Texas law enforcing Texas investments, and create legislative sentiment against statutes compelling local investments, the cause of sound life-insurance investments will be further advanced to the direct benefaction of the policyholder.

CHAPTER XII.

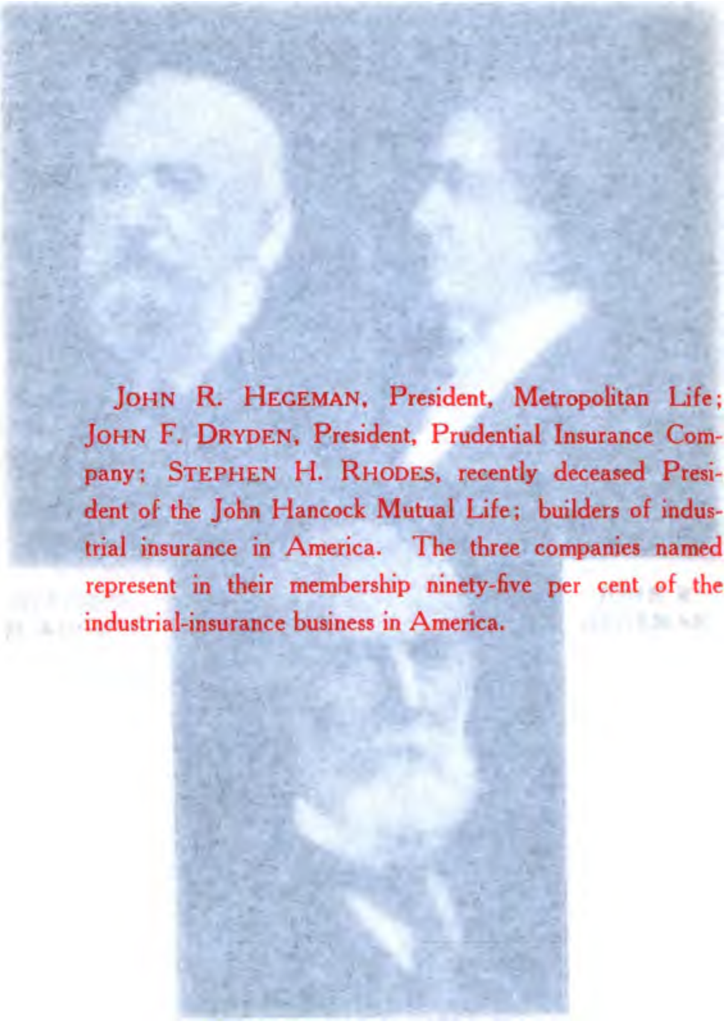
INSURING THE MASSES.

"IN God's name, who are you?" is the intensely dramatic question of the powerful play, "The Servant in the House," which carries the crux of the drama in the response: "In God's name, your brother." Those who have seen the play, recalling the tense, closing moments of the puzzling allegorical drama, will also recall the floodtide of understanding which comes with this solemn pronouncement upon the brotherhood of man.

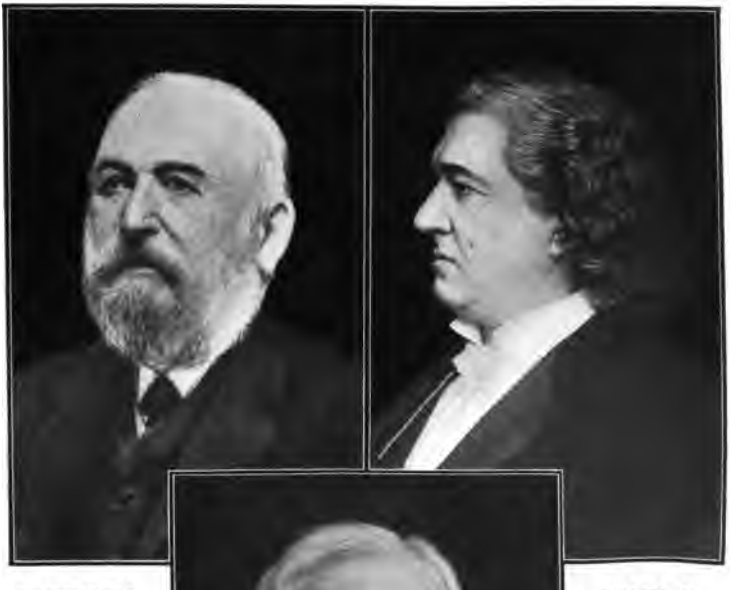
Class and mass have misunderstood one another and drifted apart not so much from conditions that forbid agreement as from lack of appreciation of one another's motives, lack of something of the brotherhood of man. If half the world does not know how the other half lives, why not withhold judgment pending more familiar acquaintance? Though this acquaintanceship be not destined ever to reach to making the whole class understand the whole mass, or vice versa, it is easily possible for individuals of class or mass to come to quick appreciation that environs and circumstances are, like the necessities they create, but artificial things, and the brand they burn is but a skin-deep searing that changes not the heart or the humanity common to all in all conditions and spheres of life.

No one out of sympathy with his fellow man is in fit mood to deal with the topic of industrial insurance.

Perhaps no other business of its magnitude, and certainly no other institution of similar economic benefit, has ever been more misunderstood or more unthinkingly mis-



JOHN R. HEGEMAN, President, Metropolitan Life; JOHN F. DRYDEN, President, Prudential Insurance Company; STEPHEN H. RHODES, recently deceased President of the John Hancock Mutual Life; builders of industrial insurance in America. The three companies named represent in their membership ninety-five per cent of the industrial-insurance business in America.



STEPHEN H. RHODES.

JOHN R. HEGEMAN.

JOHN F. DRYDEN.

UNIV. OF
CALIFORNIA

judged by those who did not know, or who would not understand, than has the corporate business of industrial life insurance. Popularly described, it is life insurance at retail supplied in such small amounts as can be purchased by a weekly premium collected at the policyholder's address in the unit of five cents or multiples thereof.

Going back to the very inception of industrial insurance, we find in it a struggling expression of the brotherhood of men. To bury the dead has been a corporate work of mercy from the inception of human existence, and will so remain as long as human life remains; an obligation that we undertake for one another, an obligation which others must undertake for us. Guilds, burial clubs and friendly societies supplied for centuries in England organizations for taking care of obligations brought on by sickness and death of members. Organized by the working classes, these associations were crude and unscientific. As supplying, however, a natural need and furnishing working classes assurance of decent burial, these societies thrived and multiplied in their membership.

The quality of the assurance or safety behind these guilds or burial clubs was unsatisfactory and resulted too often in the bankruptcy of the organization, with great loss and distress to the membership. Parliament, viewing this endeavor to guard against the urgent contingency of unprovided death, and recognizing the social and economic utility of such endeavors, vigorously pointed out in official report the unscientific character and inherent weaknesses of the assurance associations as constituted at that time. This report focused attention upon the need of what we have come to know as industrial life insurance, which at that time in unsafe and unscientific guild associations had three millions of membership in the United Kingdom.

Following the recommendations of the parliamentary commission, an English life-insurance company commenced in the year 1854 the issuance of industrial policies for contracts of small amount of insurance upon a weekly premium basis, the premiums being collected then as now from the houses of the insured. This company, the Prudential of England, operated in active competition to the old burial clubs, and outstripped these in the course of a few short years, as the public came generally to understand that insurance that did not insure was the most worthless of all commodities, and that life insurance was an involved and intricate business of long-time contracts, the ultimate success of which could only be assured by the adoption of scientific principles and by the conduct of its affairs on a business basis.

After the Prudential had experimented for ten years with the industrial branch, it attained an income of about $300,000, which seemed to assure the ultimate success of the company and of industrial life insurance. This success attracted the attention of Mr. Gladstone, the "grand old man," who was at that time Chancellor of the British Exchequer. Mr. Gladstone concluded, as many less eminent statesmen and economists have erroneously concluded since, that the business of industrial life insurance could and should be successfully undertaken by the government. This was not a new thought in English affairs, and was expressed in less definite form as early as 1773. Eleven years prior to the time Mr. Gladstone openly championed postoffice life insurance there had been an effort made toward government life insurance without practical results, as during the entire interim until 1864 not a single application for government life insurance had been received.

In the meantime postoffice savings banks had been estab-

lished in England and had achieved instantaneous success, replacing private institutions of uncertain stability and solvency. Mr. Gladstone, without giving force to that almost unaccountable condition that restrains people from applying for insurance as they would purchase other necessities of life, or as they would voluntarily make deposits in savings banks, concluded that postoffice life insurance would supply the industrial insurance needs of the populace, and be conducted more economically than company insurance by doing away with the agent and the collector.

There is so much to be said theoretically in favor of postoffice insurance, or government insurance, or "over-the-counter" insurance, not only for industrial insurance but every other form of life insurance, that it is not surprising that Mr. Gladstone, lacking historic precedent now available, should pass from the advocacy of the postoffice system of eliminating the agent to bitter attack on the Prudential as a corporate industrial organization, necessarily employing agents to preach the gospel of industrial insurance and to carry its mission straight to the household, where it could not be denied.

While industrial life insurance had not as yet made its appearance in America, Mr. Gladstone received American support in the person of Elizur Wright, the first insurance commissioner of Massachusetts and a foremost American actuary. Elizur Wright joined hands with Mr. Gladstone by proposing a system of government industrial insurance in the United States corresponding to the Gladstone proposition abroad. This was in 1864, in the early infancy of corporate industrial insurance by the Prudential of London, and at a time when the Prudential had gone into the business because of the poorer people's need for solvent and

staple insurance as a substitute for the irresponsible friendly societies and guilds.

Forty-five years and more have elapsed since the establishment of British postoffice departments for furnishing over-the-counter industrial life insurance, in opposition to the infant Prudential incorporated to serve the same class by the commercial expedient of agency organization with its incidental burden of expense. In the thirty-seven years ending January 1, 1902, industrial companies of England had built up a clientage carrying twenty-one million policies in force, whereas the government postoffice system had but fifteen thousand contracts outstanding. The disparity has grown even more marked in the years that have elapsed since, as the Prudential goes on spreading its gospel of protection in a practical way, while the postoffice system marks time with its impracticable over-the-counter theory.

The postoffice insurance system of England fails like socialism of more marked characteristics has failed, not because it is not theoretically desirable, but because humanity is what it is, and is not what it theoretically ought to be.

Industrial insurance was introduced in America by John F. Dryden, president of the Prudential Life Insurance Company of America. The need of the system was felt keenly in this country. This need was repeatedly voiced by far-sighted economists at that time, nowhere, more pointedly than by the labor commissioner of Massachusetts in his report for the year 1872, where, after setting forth the need of industrial life insurance and the lack of prudent habits which its thrifty plan would promote, he said:

> These considerations suggest the important subject of life insurance as a means of benefiting the workingman's family in case of death. It is not our function to enter at large upon such details, and we content ourselves by merely saying that small investments

in life policies will result in great and material aid to a family on the death of its natural protector and support. The subject is too important to be overlooked by persons of small means and small savings.

Capitalizing the need and sentiment for a system similar to the British industrial system, Mr. Dryden and his associates in 1875 secured the charter of the "Widows' and Orphans' Benefit Society," a sick-benefit and burial society organized in 1873. The name was changed to the "Prudential Friendly Society" and in 1877 to the "Prudential Insurance Company of America," in which name the institution has since continued. During the first complete year of operation, when the company worked chiefly in Newark and not outside the State of New Jersey, it obtained applications for 7904 policies. The following year applications for 10,521 policies were received, and nearly double that number the next year, after which the company extended its operations to New York and Pennsylvania.

Other corporations entered the industrial life-insurance field, among which was the company now known as the Metropolitan Life Insurance Company, then doing a small ordinary insurance business, and the John Hancock Mutual Life Insurance Company. In 1879 these three companies had about sixty thousand policies in force. Spurred on by competition, the number of policies in force were multiplied nearly four times during the following year, so that at the end of 1880 the companies had in force two hundred and thirty thousand. Ten years later, in 1890, industrial insurance in America had in force three million eight hundred thousand policies. This total was nearly tripled in the decade following, showing at the end of the year 1900 twelve million policies in force, which have increased since to some twenty million policies outstanding at the beginning

of 1909. On the average two out of every nine living men, women and children in the United States are insured under an industrial policy.

What this means to the State and to the country in doing away with pauper burials, and pauperism in general, as a direct benefit of industrial insurance and in the indirect promotion of thrift as evidenced in increased savings-bank accounts and other provident advances, which have gone hand in hand with the expansion of the industrial business, can scarcely be overestimated. To the individual covered by this insurance, the policy stands like the ordinary policy as a protector of the hearth, but more than this the industrial policy stands as a preserver of the person in assuring the dignity of decent burial.

"Before industrial insurance came into existence," says John F. Dryden, who introduced it in America, "the average annual pauper burial rate was 23.4 per ten thousand of population; it had fallen to 15.6 by 1890, and to 11.8 by 1904. Upon the lowest estimate of expense the annual saving to American taxpayers on account of this reduction is $250,000 a year. At least thirty thousand persons are now buried annually at their own expense who would be buried in the potters' field if the present burial rate of paupers were the same as the rate prevailing before the introduction of industrial insurance."

Specters conjured from the potters' field, or from contemplating the impoverishment that follows the more well-to-do laboring classes when they are called upon unexpectedly to provide sickness and funeral funds, is a vision remote from the observation of those well-fed critics who think, or prefer to think, industrial insurance a parasite on the poor.

Fancy such critic in the small tenement neatly kept, but

poor enough through normal conditions, and pitifully poor when death knocks. The corpse, in the lack of accommodations, is in one of the over-peopled rooms, laid out on a temporary makeshift bier. The undertaker comes. What is his first question to the bereaved family surrounding the body, no less beloved through their inability to have supplied it in life with some of life's luxuries and take from it in death all of death's terrors? He wants to know if there is an insurance policy in force. If so, as part of his trade, this undertaker will help to make death less terrible. If not, he takes an abrupt departure, leaving a heart-rending situation of money paucity that might, through the industrial-insurance system, have been eliminated by the cost of a car ride a week, or the self-denial represented in the price of an occasional cheap cigar or glass of liquor.

Industrial insurance does not aim to touch a lower social status. It is meant for the honest poor, but not for the indigent pauper. It goes on up the scale. When death strikes the home of the thrifty cottager, whichever member of the family it may be, the industrial policy serves as no other instrument or institution can serve, in the absence of accumulations to take care of such contingencies.

Accumulations mean savings, and savings of years, before the word "accumulations" can with dignity be applied. It is well to prate on savings, but in the stern realities of life it is practically impossible for certain classes served by industrial policies to prepare by savings against death's visitations, and where the industrial condition permits of savings, the industrial policy is often the instrument that has fixed the habit. Industrial insurance and savings accounts go hand in hand, and the activity of the former has lent historic impetus to the force of the latter.

Industrial insurance develops and educates patrons for

ordinary insurance. The leading industrial companies have all established ordinary branches, where the thriftier classes can obtain insurance upon the lower rates possible on the annual, semi-annual or quarterly plans when applied for in sums of $1,000 or more. In addition to this, the companies have established intermediate departments, where $500 policies are obtainable on annual, semi-annual or quarterly basis, at premiums lower than industrial rates, though higher than ordinary rates.

"Yes," admit critics of the school of Louis D. Brandeis, whose savings-banks scheme in Massachusetts will be referred to later, "industrial insurance has done much for the home and the nation, but it has done so at excessive cost. The system is good, but it costs too much."

If the system is good, and it is generally admitted to be good, both in the consensus of authoritative opinion and in success that could only be achieved by supplying a real want, it can only be claimed to cost too much in the sense that it might be supplied at lower cost. An analysis of the character of industrial insurance would seem to prohibit the elimination of the expensive services of the agent, or of the wastefulness of the system to any radical degree. This point was brought out eloquently if unconsciously by the Armstrong investigating committee of New York, when in an attempt to take a back-handed slap at the industrial insurance business, without the facts to strike out straight from the shoulder, the committee reported:

In fine, the industrial department furnishes insurance at twice the normal cost to those least able to pay for it; a large proportion, if not the greater number of the insured, permitting their policies to lapse, receive no money return for their payments. Success is made possible by thorough organization on a large scale and by the employment of an army of underpaid solicitors and clerks; and

from margins small in individual cases, but large in the aggregate, enormous profits have been realized upon insignificant investment.

Eliminating the gratuitous truism that the small purchaser pays for every commodity the highest price, through inability to buy in bulk or volume, here is a statement that reduces to an admission that success in the industrial insurance business is made possible for the largest company in the business through organization, where economy is forced to a point to bring out criticism in behalf of the agents and clerks of the company. With the further admission that the margins are small in individual cases is hitched on the statement that enormous profits have been realized upon insignificant investment.

Haley Fiske, vice-president of the Metropolitan Life Insurance Company, the company under discussion in this statement of the Armstrong committee, treated most frankly this phase of industrial insurance in an address delivered at a meeting of the National Civic Federation:

Early in the career of the Metropolitan it set itself a limit, and had that limit fixed by an act of the legislature, that no payment to stockholders shall be in excess of $140,000 a year, which is seven per cent on the capital, which is four per cent on the investment of capital of those who have bought stock later; which is twenty-eight per cent on the original capital. But the original capital was only $500,000; it went out of sight; there was a prospect of its all becoming lost unless we could do something for the stockholders to get them to pay more, to induce them to pay in more money. The proposition to capitalize the surplus up to $2,000,000 was made to them, and the question whether that was right or wrong came up before Grover Cleveland, the then Governor of the State, and he ruled that that was not an excessive amount to pay over to the men who run the risk and put their money in there; and he signed the amendment to the charter.

Now, when anybody tells you they get twenty-eight per cent, don't forget that whatever it is, it is only $140,000; it can not be

over that. Now what is $140,000 per annum on $60,000,000 of annual premium income? It is not too much money for managing a business like that. Well, if it is, the answer is pat, that the $140,000 is not taken out of the profits of doing industrial business. Every cent of it is earned by the stockholders, out of their investments. The interest earned upon the reserve above, the interest by statute required, and the interest earned on the capital and surplus much more than pay, not only the dividends to stockholders, but the officers' salaries, so that not any dividends to stockholders, nor any salaries to officers are paid out of the profits of the business. Nor has there been for many years any part of it added to the surplus out of profits. If you will take the last ten years of the Metropolitan Life, the total additions to surplus amount to less than the earnings from interest above the statutory amount and the earnings from interest on the capital and surplus which belong to the stockholders in the last event. So that the profits of the business have not contributed either to the stockholders, the officers or the surplus of the company.

It thus becomes apparent, first, that as life insurance must be done on a margin of safety, there must have been profits earned on the business, which went somewhere; and secondly, that beyond these earnings there must be inherent reasons why industrial life insurance should cost greatly in excess of ordinary life insurance. Mr. Fiske himself, later on in his speech, answered the first of these conclusions, showing how the Metropolitan has paid back in gratuitous dividends to the industrial policyholders fifteen millions of dollars not promised in these nonparticipating contracts. "This act," continued Mr. Fiske, "can not be said to be a gratuity. It is an act of justice, it is a reduction of premium. It is the only way in this business that we could reduce the premiums. To reduce the premiums at the outset is to invite bankruptcy."

Similar dividend returns have been made by the other two leading industrial companies, the Prudential Insurance

Company and the John Hancock Mutual. These three companies represent ninety-five per cent of the total industrial insurance of America.

Taking up the second conclusion, that there must be inherent reasons in the industrial system for its increased costs, the reasons are found, first, in increased mortality of the industrial classes; second, in the exigencies of a business that can only be conducted in successful volume by the employment of agents to solicit the business and collect it weekly from the houses of the insured; and third, in the waste produced by lapses.

As regards the mortality of industrial classes, a scientific mortality table built from the experience of the Metropolitan Life, embracing an observation of twelve millions of insured lives, indicates the industrial mortality to be at the different ages from about one hundred and forty to two hundred per cent of the tabular mortality rates safely assumed in the ordinary branch of old-line life insurance. At age thirty-five, popularly assumed as an average age, the industrial mortality showed one hundred and eighty-five per cent of the normal tabular death rate of ordinary insurance.

A more recent compilation of industrial mortality by the same company, based on actual experience for the ten years prior to 1907, shows marked improvement, the mortality at age thirty-five being about one hundred and fifty-five per cent of the American experience table now standard for old-line ordinary insurance. The industrial companies are giving the benefit of improvement in mortality to their patrons in adopting new tables allowing increased benefits.

Increased mortality means increased cost, and while no man dies more or less than once, yet in the averages of life insurance, the deaths per one thousand experienced at the

different ages determine the cost of the insurance when considered separately from the items of expense and interest. The "why" of this larger industrial mortality is due in part to the relatively higher death rates experienced in cities. Industrial risks are essentially urban risks, as the system of industrial insurance can not be profitably carried to the agricultural sections of the country or sparsely settled villages and smaller towns. It is a business obtained and continued in force by weekly visits from an agent, and the need of concentration to make these visits profitable to the agent upon the narrow margins of the business have limited agency activities to the cities, even apart from the fact that the business, to be profitable, calls for supervising the work of the agent that prohibits small detached agencies in widely scattered territory.

Another fact that contributes to the increased mortality of the industrial classes is the strain under which they live and toil for a not over-abundant nourishment amid inferior physical surroundings. Then, too, the working people are notorious for their disregard of themselves and of the rules of diet and health which are more or less rigidly followed in the upper classes.

While on the topic of industrial mortality, a reference to insurance of children and the mortality among children insured under the industrial plan is not out of place. The mortality of insured children is shown, both from the records of the American companies for the United States and from the records of the Prudential for Great Britain, to be less than the general child mortality of the whole population. This surely supplies all the refutation needed to the well-meaning but misunderstanding opposition to child insurance on the grounds that it imperiled child life. Were this a fact, it would make the business a commercial impossibility,

since no industrial life insurance could safely undertake a business where it could be viciously selected against by murderous parents anxious to realize financially through the sacrifice of the child's life either through murder or studied neglect.

The amount of insurance is rigidly limited upon the lives of children, and the limit increased with age, so that at no time is there more than a modest funeral benefit at risk upon the child's life. This is all the parent wants, all the insurance company would care to grant, and all the law in certain States permits. While it is but a small sum, it covers a need that multiplies the value of a dollar in securing a decent burial of a fond child without impoverishing the resources of the whole family. Poverty subtracts nothing from parental love, and possibly adds much to it, much more than could be appreciated by the hypercritical rich, who, misunderstanding the poor, underestimate and undervalue them.

It is in the assurance of the children and of the aged, beyond age sixty and up to seventy, that industrial insurance becomes "family" insurance and covers every member of the household. Death is no respecter of individuals, and an attempt to encourage a thrifty providence of the workingman to provide against the contingencies of death falls short of completeness if it would exclude any member of the family. The English government postoffice insurance department later realized this and amended their original proposition to exclude all children, to take in all who were aged eight or more. Insomuch as this was a half-way measure, it has served as an admission of error without fully correcting the error to include all members of the family in insurable state of health and under extreme old age.

It is interesting to note the distribution of industrial policies among the different ages as compared with the dis-

tribution of population. The following exhibit brings out with fidelity the family character of industrial life insurance:

AGE DISTRIBUTION.

Ages:	Percentage of population.	Percentage of policies in force, 1904.
1 to 4, inclusive	9.57	9.57
1 to 9, inclusive	21.28	22.47
1 to 14, inclusive	31.94	34.66
1 to 19, inclusive	41.91	45.35
5 to 17, inclusive	28.42	31.65
20 to 29, inclusive	18.29	17.68
30 to 39, inclusive	13.88	12.83
40 to 49, inclusive	10.16	9.96
50 to 59, inclusive	6.80	8.06
60 to 69, inclusive	4.08	4.86
1 to 69, inclusive	95.12	98.74

This table shows no undue excess in the earlier years, and in fact, a remarkable correlation throughout with the general population statistics.

Sentiment against child insurance was but one of the many prejudices which industrial insurance has had to combat. More than once has legislation against child insurance in England been defeated in Parliament after legislative investigation. There have likewise been agitations and investigations against child insurance in various places in the United States, including Pennsylvania, New York, Massachusetts, Tennessee, Ohio, Missouri, New Hampshire, California, Connecticut, Illinois, Michigan, Georgia, Delaware, Indiana, Utah, North Carolina and Wisconsin. In every instance have these measures been defeated. In Wisconsin the Bishop of Fond du Lac came voluntarily and unsolicited to the defense of child insurance when this feature of industrial insurance was attacked. Colorado, the only State to prohibit child insurance, did so

at a time when only one industrial insurance company was in a small way working in Colorado. The prohibition was not on the grounds of unfavorable experience, but in theoretical anticipation of abuses that have never existed. It is to be noted that even in this instance E. E. Rittenhouse, when Insurance Commissioner of Colorado, made vigorous recommendations for repealing this unwarranted prohibition.

When the subject of child-insurance prohibition was up in Pennsylvania, Doctor Walk, at the time head of the Philadelphia organized charities, appeared before the Pennsylvania Legislature to state:

> I have never known of an instance in which there was any evidence that children had been neglected or murdered for the purpose of securing the insurance upon their lives. Indeed, my own observation is that among the poorer classes parents are very fond of their children and are much more with them than in other social grades.

Dismissing the subject of mortality, which, though showing for the infant lives a mortality lower than the general population, none the less produces death rates greatly in excess of those experienced under ordinary life-insurance policies, another factor of increased cost appears in the expensive industrial scheme of carrying insurance to the very threshold of the working people. To do this requires the employment of agents, who to collect a year's premiums may be obliged to make fifty-two weekly calls. The premiums are collected in small amount, the average premium being a little over ten cents a week. An agent's route is usually made up of eight or nine hundred policies, amounting in premiums to from $80 to $90. There is, of course, an enormous expense in handling a large volume of small items, as compared with getting the same volume of premiums upon a few items paid direct by check, as is the

case in the larger policies of ordinary life insurance, where the premiums are payable annually, semi-annually or quarterly.

Many are the schemes that have been devised to substitute some other collecting system for the weekly agency call, but from the very inception of the business with the London Prudential the weekly call has been the only successful plan. Monthly schemes have been attempted with enthusiasm, to go down successively in dismal failure. Collected weekly the small premium is but the price of a foregone extravagance or indulgence. Collected monthly, the premium is a burden that remains after the small extravagance has been indulged. If a policyholder is the exceptional case who will save a monthly premium, he will be encouraged to take a quarterly payment upon the intermediate $500 plan, or even upon the ordinary plan if the grade of the risk will make the case acceptable for ordinary insurance. After all due consideration, there appears no possible way in which the weekly call or the work of the agent can be eliminated in industrial life insurance without practically eliminating the system itself.

Expenses in industrial insurance are large, but these expenses pay not only for the work of the agent in collecting from the insured, but also remunerate him for supplying risks to take the place of lapsing and terminating members, and in addition cover the missionary work of getting new policyholders, as the business of industrial life insurance continues to show each year tremendous gains in membership. If industrial insurance can be produced and given the workingman at lower cost, or at a cost that would eliminate part if not all of the present expenses of the business as conducted through agency organizations, it is right and proper that this condition should be brought

about. If the condition can be brought about it sounds the doom of industrial insurance as at present constituted. If industrial insurance survives and will survive, despite the expense necessary to conduct a business of this character under agency systems that bring the insurance straight to the front door, it is proof sufficient that the system supplies that which can not or will not be purchased or obtained in any better or cheaper form.

Recently, through the vigorous efforts of Louis D. Brandeis, of Boston, Massachusetts has adopted a law permitting the savings bank to establish departments for conducting industrial insurance. Unfortunately and unnecessarily, the promoters of the savings-bank idea of supplying industrial insurance without the intermediary services and expenses of the agent, have not relied solely upon the merits of their proposition to win support, but have supplemented their theoretically excellent plan with gratuitous attacks upon the agency system of conducting life insurance.

Mr. Brandeis' Massachusetts experiment brings us back nearly a half century to the historic opposition of Mr. Gladstone, with his postoffice life insurance, to the early operations of the Prudential of London. There is no possible objection or disadvantage to the people of England having both systems at their disposal, but when it is recalled that the Prudential of London issues one thousand industrial policies to one of the postoffice department, and that the fifteen thousand policies in force by the postoffice department are largely on the lives of postal employees, it would appear that if selection must be made between one or the other of the systems, the public would be bettered by almost a thousand to one by the continuance of the Prudential system, expensive as it is, and the discontinuance of the postoffice system, economical as it might be but is not. As

stated, however, there is no occasion for debating this question, and it is a question not brought forth by the corporations of America conducting industrial insurance, against Mr. Brandeis and the savings bank "over-the-counter" idea now being tried in Massachusetts.

It is a safe prophecy that not only will corporation industrial life insurance reach the people as the savings banks will never be able to do, but that the soundness and economy of the corporation policy will make it appeal on these points alone to a discriminating public. This is no reflection upon the English postoffice insurance scheme, or the Massachusetts savings-bank insurance, beyond the fact that the business of life insurance, and particularly industrial life insurance, is an involved business, and that with all its handicap of expense necessary to bring the benefits of industrial life insurance to the people, superior knowledge, ability and facilities for conducting a business gives offsetting advantages to the large and well-established corporation over experimental nonagency schemes.

If the industrial people will apply for life insurance direct, schemes could be worked out by the industrial insurance companies themselves, at least as well as by the savings banks, to reduce the cost, not only in industrial insurance but in ordinary insurance, where the agent as a necessary worker is worthy of his hire and must receive it.

In summing up the expense of the system and the wonders of an organization that has placed in such industrial cities as Philadelphia, Newark or Cohoes, as many or more policies than there are living inhabitants of the town, account must be taken of the assistant superintendent, who supervises a corps of five or more agents, working on the routes of a retiring agent and starting a new man into the business, either collecting with him on old policies or canvassing with

him for new; and above the assistant superintendents, the superintendent, who is the final authority in the district over which he presides. In the large cities there are two or more superintendents handling separate districts, each superintendent having possibly ten or even more assistant superintendents under his control, and each assistant superintendent with a corps of five or six agents. The routes are divided to concentrate the work of the agent in the smallest territory possible, and it is part of the duties of the assistant superintendent in charge of the adjoining agencies to see that the territory is systematically and thoroughly covered. The superintendent supervises in turn the work of the assistants to the end that his entire district is actively solicited, carrying home to the industrial population the needs and usages of life insurance.

With one large company doing a representative business, the average salary, in 1905, of the superintendent was $43 a week, that of the assistant $20, that of the agent $12. By further concentrating the work of the agent, this company has since increased the agent's remuneration about twenty-five per cent and at the same time decreased the total expense ratio of the company eight per cent. With this company the home-office salaries amounted to one-half of one per cent of the income. At the home office the company starts in its women clerks at $6 a week, its men at $8, and gives them an increase to a maximum of $12 for the women and $20 for the men clerks. Each superintendent of agencies, who is separately charged with an average of fifteen hundred field men to supervise from the home office and the field, receives on the average about $5,000 a year. Continuation in service of assistants and agents and other employees of the company means persistence of the business, and its economical handling. It appears, therefore,

that any considerable reduction of expense in industrial insurance must come from a greater persistence of the business, which brings us to the topic of lapse, a source of large waste, whose curtailment in even a small part would mean great saving.

Strangely enough, it has been a popular error that lapses were a source of large profit to the industrial companies. This has aroused more or less criticism, from the natural deduction that it was a profit achieved by the policyholder's loss. During the Armstrong investigation the vice-president of one of the large companies testified that he probably understated the lapse loss when he said that if it was not for this loss the benefits of industrial life insurance could be increased twenty-five per cent. By the lapse loss in life insurance the new business produced costs with the older companies twice the commission contracted to pay the agent, and with the younger industrial companies this ratio is even greater.

The average premium was twelve cents upon the policies canceled during a recent year by one large industrial company, and the average time for which the premium was paid was a trifle over six weeks, giving an average paid on the policies lapsed during that year of seventy-two cents. The average initial cost of new business during the year, including commissions, collection, medical examination, inspection and other expenses, was $2.07 per policy, without regard to the value of the insurance given to the lapsing member. Deducting from this $2.07 the average premium received of seventy-two cents, the actual loss to the company averaged $1.35 for each lapsed policy. The average cost of carrying the policy during the average time in force was fifty-one cents. Deducting this from the average paid by the policyholder of seventy-two cents shows the net loss to the policy-

holder of twenty-one cents, while the loss to the company was $1.35 plus the cost of carrying the insurance, making a total loss to the company of $1.86 on each lapse.

During the industrial insurance investigation in Massachusetts the opposition counsel introduced as a witness a woman with fifteen lapsed policies issued upon five members of her family, to show how the company was enriched at the expense of the lapsing policyholder. Much to the chagrin of the counsel, the insurance expert proved to the contrary. This woman took advantage of the fact that industrial policies carry four weeks of grace, so that a new entrant may take out a policy, involve the company in the large initial expense of having the risk examined and issued, pay one premium and have the insurance carried for five weeks by taking advantage of the four weeks of grace. This is what this witness had done. The total amount of premiums she paid on the fifteen policies was $1.90, showing her family to have received sixty weeks' free insurance, making the insurance exceedingly cheap, and forcing upon the company not only the initial expense of issuing these policies but the burden of carrying the insurance risk.

When the policyholder persists for some time and lapses later, there is a profit to the credit of the policy, but at such time the policyholder is allowed a surrender value. In industrial insurance this surrender value is allowed at latest after five years. Five years seems as early a period as is just for compelling statutory surrender values in a business carrying such large initial expense and suffering so heavily through the discontinuance of insurance. But under the new New York laws the period has been fixed at three years — at which time it is doubtful if the policy will have saved and accumulated to its credit the amount of the legal reserve.

Industrial lapse losses differ from lapse losses in ordinary insurance, since, in the latter case, the man usually pays an annual premium, and never less than a quarterly premium, which would represent thirteen weeks' insurance. In industrial insurance he needs pay but one premium, and the greatest volume of lapses occurs in the payment of the first few renewal premiums. Industrial insurance has fifty-two premium dates in the year, each offering chance for lapse. The company with probably the lowest lapse ratio found in a recent investigation that thirty-eight per cent of its industrial business issued in a given year lapsed in three months, and sixty per cent in a year. After three years the industrial business is quite persistent, comparing favorably with annual premium ordinary business.

Everything possible is done to reduce lapses. The agent who is charged direct with the lapsed premium finds it as profitable to keep a policy on the books as it is to rewrite a new one of the same premium. This is the only branch of life insurance in which this condition exists. In ordinary insurance and other branches of life insurance, the lapse is not charged back against the agent. Moreover it is one of the required duties of the assistant superintendent to visit every member reported for lapse, and do his utmost to have the policy reinstated.

The ways of the poorer people, however, are not always provident ones, nor can the poor always be provident, in the sense of the rich. They buy at retail, and pay a heavy toll as compared with supplies and commodities bought and paid for in large amounts. Small purchases of food or coal carry a heavy tariff as compared with the purchase by the barrel or the ton. Instalment-bought furniture, or homesteads, carry the costs and penalties of expensively supplied needs that could not be supplied at all under a system which

would call for a larger immediate expenditure to purchase at relatively lower cost.

Largely to the poor man's spirit of improvidence the lapse is chargeable, just as it is chargeable to this spirit that the industrial worker must have insurance providence and thrift taught to him and brought to him by the agent or else he will have none of it. Nor does the industrial applicant in this respect differ except in degree from the more affluent classes constituting the patronage of the ordinary life-insurance company.

With all its expense of organization, with all its waste of lapse, industrial life insurance performs a mission not covered by any other institution in the world's affairs.

If the industrial public can become educated and will become educated by other methods than compulsion, to patronize industrial life insurance without the intermediary of the agent and without the drain of the lapse, thousands and millions can be saved the industrial classes. But will they do this, short of the German system of compulsion? It appears not, and at the thought " compulsion " American individualism reacts with an " I'll have none of it." In the meantime and all the time, the industrial agent goes his way and his work goes on.

Industrial insurance confessedly falls short of the ideal, but in clinging to the practical, it serves a mission of usefulness in freeing the masses from the enslaving terror of pauper burial. Spread out over the world to-day, wherever a large disaster occurs, the industrial companies can reckon a quota of claimants from families of some of the unfortunate victims. One industrial company alone had twenty-three industrial policyholders lose their lives in the Iroquois fire, nine in the dock fire of the North German Lloyd at Hoboken, 212 persons insured under 336 policies in the

Slocum disaster. Another and very much smaller industrial company paid out $60,000 in policies averaging less than $100 upon claims arising from the Galveston disaster.

Less dramatic, but with oft-repeated force, goes on the mission of industrial insurance with the claims it pays in natural order throughout the years. An average of 441 claims paid each day during the year, being one for every sixty-five seconds of each business day of eight hours, is the story of the operation of the largest industrial company, which includes a large volume of ordinary and intermediate business, though relatively small as compared with the industrial. Averaging for amounts, the figures for this company become even more impressive when it is considered that it carried upon the same basis a payment of $128.48 a minute to claimants, for every minute of business hours during the year. The industrial life-insurance companies collectively pay over one thousand claims per day, and in most instances the money is paid within a few hours after the claim papers are made up. To these figures are to be added the multiplied value that attends ready money at a time of urgent need, when the value of a dollar bill assumes a proportion that more than half the world has never learned to give it.

Again is asked, and this time direct to industrial insurance:

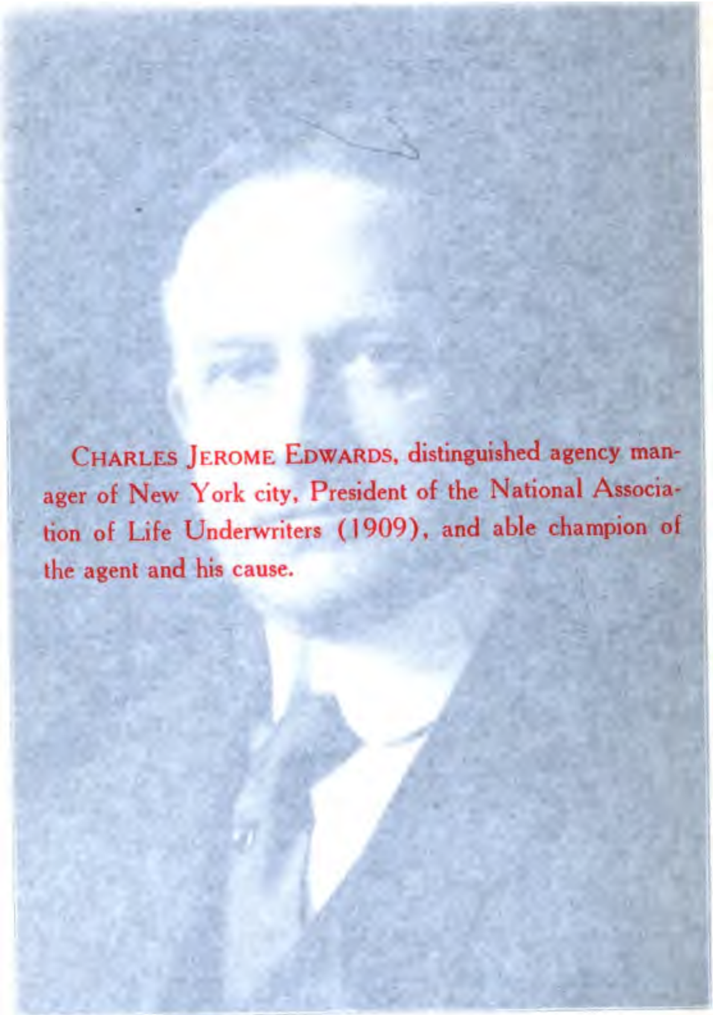
"In God's name, who are you?"

And this the reply:

"A brother of the brotherhood of man, with faults and virtues, with strength and weakness, but withal a brother serving and wanting to serve."

UNIV. OF
CALIFORNIA

CHARLES JEROME EDWARDS.



CHARLES JEROME EDWARDS, distinguished agency manager of New York city, President of the National Association of Life Underwriters (1909), and able champion of the agent and his cause.

CHAPTER XIII.

THE LIFE-INSURANCE AMBASSADOR.

"STOP, young man," said a busy banker to a life-insurance representative the moment he stated his mission, "you can't talk life insurance to me here. My time is too valuable."

"Is it worth more than $1 a minute?" inquired the agent, as he pleasantly laid down a ten-dollar bill, adding, "I would like to make the next ten minutes valuable to us both."

And he did.

When he arose to go, well within the allotted time, the banker shoved his bill back to him and said, "Continue. I am interested." Upon leaving, the agent carried an application of goodly size, to show how well the banker's interest was sustained.

When the modern life-insurance representative comes into a man's office, or talks insurance to him elsewhere, he is as appreciative of the value of time as the "prospect." Time and appreciation are the agent's stock in trade. If he squanders his time or fails in appreciating the value of the other man's time, he falls short of achieving success and of making his work remunerative.

The successful agent of to-day visits the office, the recreation place or the home with the assurance that the message that he carries is one that needs no excuse on personal grounds. It is the message that introduces the man, rather than the man the message.

"If you will not take assurance with me in my company,

tell me what company and agent you do prefer and I will call him up by telephone at once," is the way one of the most successful agency managers in the United States trains his agents to carry the message, "because your family needs the protection, and a policy secured in some other company or from some other agent is worth more than none at all."

Just as the agent's visit presents opportunity to learn of life insurance and duties grim and obligations irksome, which make all the more necessary the mission of the agent, so does a review of the agent's work bring with it a better understanding of the great cause of which he comes as ambassador. With brutal frankness the Cleveland *Press* thus restates the message which the agent is wont to deliver with infinite tact and appreciation:

It is rather a grim subject — this idea of death. It's a pleasant thing to forget. Many men do successfully dodge the subject all their lives. But there is no dodging death itself. It never forgets. Rich or poor — mighty or lowly — no matter.

It's a fine thing to live. It makes a married man proud to have a home, to dress his wife, to give his children educational advantages and to keep his family in the front rank. It takes money, yes — but it's fine for the children, delightful for the wife, satisfying to the man. But —

Some day your friends will lay a lily on your chest, heap the praise, the reverence, the kindly tributes that should have been yours through life, upon what is left of you, lay you away, and proceed to forget you.

But the widow won't forget.

The orphans won't forget.

When you go to the cemetery will the widow go to the poorhouse?

When you pass into the unknown will your orphans pass into the asylum?

There is no time to decide this but *now.*

If you should abandon your wife while alive the law would ***put you in jail.*** Death relieves you of the *law,* but not of ***responsibility!***

Many a man has shut the door of opportunity with a "Keep out life-insurance agents" to the people around him. Behind the times to-day, to-morrow this man will be an anachronism. While he would not assume the absurd position of denying the benefit of life insurance in the abstract, his instructions to his subordinates deny opportunity to have life-insurance knowledge delivered to him in a professional way without charge for services. Strangely enough, this type of man before investing or buying any other article or commodity searches for knowledge in the most painstaking way, and solicits it wherever it may be obtained.

"Yes," a man of this type admits, "if I wanted to buy an automobile, for example, I would think automobile, investigate automobile, and talk automobile wherever opportunity afforded, devoting all possible time to becoming thoroughly conversant with automobiles and eagerly listening to the claims of dealers and soliciting the advice of the expert. The difference between your simile and an automobile purchase is that I would want the automobile, and don't want the life insurance."

Dealing with this sort of man, the first part of the agent's work, and the major part, is to bring home the want, and the need and the usefulness of life insurance, as it has escaped the attention of the prospect.

For life insurance, for some indescribable reason, is the one great necessity that men do not purchase as they provide for other wants, but await having their needs urged upon them through the personal visit of the agent. Every man owes it to himself and owes it to those associated with him by relationship, business connection or other ties to listen to the message of his protection needs as it is brought to him in the expert conciseness of the trained agent. There are ways of covering insurance needs represented in different

plans of life insurance as varied as the needs themselves, and of these plans and systems the knowledge of the agent supplies a fund of valuable information.

It is truly amazing that appreciation of the expert and professional side of the agent as a dispenser of life-insurance knowledge has been so long delayed, and even now is not utilized with a true sense of its real importance.

Life insurance has been built up by the work of the agent. The business of protecting and caring for the widows and orphans has gone on through the work of the agent. So far as the policyholders are concerned, the agent stands as the "party of the second part," summing up in his personality the whole life-insurance company. In the company's eyes the agent stands as the representative of the policyholders. To his credit be it said that the agent of to-day fulfils his dual position with a lofty sense of obligation that makes him faithful to the company and fearless in the service of the policyholder. Strangely enough, this dual relationship has not reacted to win sympathy for the agent, and has left him, in time of storm, to be buffeted between conflicting elements.

"A boy visiting the Senate chamber became interested in the official clergyman, who, his father explained, was the chaplain," is the story told by George H. Gaston to illustrate this point. "'Oh,' the boy exclaimed, 'he prays for the Senate, doesn't he?' 'No,' said his father, grimly, 'he just gets up and looks at the Senate and then he prays for the country.'"

Mr. Gaston, who, as second vice-president of the Metropolitan Life, directs one of the largest corps of agents in the country, points the moral:

During the whole course of the Armstrong investigation the people read the exaggerated and in some instances distorted

accounts of the proceedings that appeared in the public press, and then prayed for the public and the policyholders, having no regard for the integrity or the welfare of the agents, the bone and sinew of the great life-insurance organizations.

The chief sufferers from the disapprobation of the methods current in some life-insurance home offices were the life-insurance agents, and the laws enacted to eliminate life-insurance abuses have borne harshly on the unoffending agent, forcing the withdrawal of many and reducing the remuneration of those who remained in the business. So far as the wholesale reduction of the number of agents and the disorganization of agencies was affected by overdrastic legislation, to this legislation must be charged the economic loss to the family and to the country which has followed curtailment of the agents' activities.

William C. Johnson, a prominent New York agency manager, says, in criticism of Section 97 of the new New York State laws, which has severely limited the remuneration of the agent:

> When the original limitation was passed, the State for the first time in history undertook to establish not a minimum but a maximum rate of wages. After experience under it the employers come forward in a body and say that they can not conduct their business efficiently or retain their employees unless authorized to increase wages over the scale to which they were improperly reduced two years ago. We have never known of a unanimous desire on the part of employers of any class of labor to increase wages due to any affection for the workers or any other reason except business necessity, to avoid crippled and unprofitable operation. Yet the discretion which in all other matters the State properly leaves to the employer it denies to the insurance manager, the prosperity of whose company and the security and advantage of the policyholders in which depend upon the steady introduction of an adequate volume of new lives, and who to that end must employ many honest, skilful and energetic men for the trying and difficult work of selling life insurance on the uncertain basis of a recom-

pense arrived at by commissions on accepted business only. What is in every other kind of a business, business prudence, in life insurance is seemingly sin.

Mr. Johnson spoke thus feelingly when Governor Hughes vetoed the first bill passed by the Legislature of New York, designed to moderately increase the agent's remuneration from the low point fixed in the original Armstrong legislation. Governor Hughes thus explained his veto:

While I am desirous that insurance agents should receive reasonable compensation and such rewards as regard for the interest of the policyholders will justify, and that our New York companies shall have the recognition and enjoy the confidence which they deserve, I can not approve the bill before me, as I believe that its provisions are ill-advised and that its enactment would impair the safeguards which should protect this important business.

The New York *Commercial* in an editorial thus interpreted the governor's statement:

With one hand the "life-insurance-reform" Governor of the State of New York pats these men on their backs and says:

"Bravo, boys! You're doing finely. The chastening that I and the Armstrong Committee administered to you has borne its full fruit. You are all right. You have rehabilitated yourselves and your companies. You deserve recognition. You are worthy of confidence. The State stands ready to extend the one and to give proof of the other — the faith that is in it. Here ought to be my signature to your bill, gentlemen!"

But with the other hand he stabs them and their cause with the poniard of a veto which says, plainly enough, "Your period of probation is not yet closed. Your companies have not yet purged themselves of the taint of the old 'scandals.' We'll keep the screws of the law on you a while longer, I guess, Good-day!"

Construing Governor Hughes' statement from either his own words or the interpretation of an unfriendly newspaper, the message carries an appreciation of the agent which has

since brought about an amendment of Section 97. This section as amended in 1909 extends the period of renewal commissions from nine to fourteen years and increases the collection fee allowed after fourteen years. Its chief importance comes from the fact that it is a step in the right direction.

The hope of the situation lies in the fact that life insurance has been purged of high-pressure methods and expensive agency operations which, in their extravagances, perhaps, swung as far beyond the normal of a conservative economy in one direction as the parsimonious limitations of New York's original reform laws swung in the other. In so much as a happy mean is possible, both extremes are wrong, but the parsimonious extreme must bear the brunt of hardship unjustly inflicted on the agents and upon dependents of uninsured men and women not reached for insurance because of the crippled activities of the agent. Nor would these needy beneficiaries agree that any degree of managerial extravagance was so bad for them as the deplorable total lack of insurance.

The man to-day who can carry with success and credit the ambassadorial message of insurance protection is not the kind of a man that can be retained permanently in a vocation that does not remunerate him fittingly for his labors.

If the life-insurance business needs agents, it must have honorable, progressive men of alert, producing qualities. Such men are worthy of their hire. If the life-insurance business can get along without agents, no agent is worthy of retention, and any sum paid to the agent is a useless expense.

Can life insurance be sold without agents?

The unanimous negative of life-insurance officialdom is thus concisely expressed by John B. Lunger, vice-president

of the Travelers' Insurance Company and actuary of high repute:

> Every experiment by a life-insurance company to sell insurance "over the counter" has met with scant success; every governmental scheme to provide insurance to those who will voluntarily apply for it has ended in failure. Were it not for the hard, persistent work of the agents, the volume of insurance carried in our American companies would be measured by tens of thousands instead of thousands of millions. The agent is an exhorter to duty, an advocate of thrift, the counselor of the insured and the benefactor of his family. He is indispensable alike to the companies and the public.

The operation of two English life-insurance companies of undoubted excellence, one of them the oldest old-line life-insurance company in the business, gives emphatic answer that the business of life insurance can not be successfully conducted without the active work of the agent. One of these companies, the London Life Association, with total expenses amounting to but four and one-half per cent of the income, during the year 1907 wrote only a total of $1,863,000 of insurance. Those who go into this company are satisfied and stay in it, but without the agent it seems unable to bring in enough business really to dignify the company as a going life-insurance institution. The old Equitable of London, another excellent non-agency company and the oldest old-line life-insurance company in the world, with its long years of honorable service and economical insurance to its credit, and with an expense rate amounting during 1907 to but three and one-third per cent of the total income, issued during that year only two hundred and thirty-six new policies, covering $1,368,000 insurance. Compare these figures with the record of one New York general agency of $17,116,513 of new insurance written during 1908 for a

western company in the two boroughs of Manhattan and the Bronx!

Plainly, economy in life insurance which reaches a point that curtails the operation of the business and practically denies its benevolent service to thousands and millions of people only waiting to have their insurance needs and wants made plain to them, is not the kind of economy that economizes.

Who has ever heard of a widow or an orphan, business associate, or other beneficiary of a life-insurance policy begrudging the remuneration paid to the agent? To the contrary, every active life-insurance worker enjoys a grateful respect from the beneficiaries of life insurance who can not but look upon the man who carried the protective mission into their home or their business house as a personal and a public benefactor, whose services to them would be underpaid without their grateful appreciation.

So rare is the instance of a citizen of the United States applying for insurance direct that a person doing so, by the very act, puts himself under suspicion and is made the subject of the closest scrutiny to detect the moral or physical selection he is suspected at once of wanting to exercise against the company.

Josh Billings humorously satirizes the self-selected applicant for life insurance:

I kum to the conclusion lately that life was so unsartin that the only way for me to stand a fair chance with other folks was to get my life insured, so I kalled on the agent of the Garden Angel Insurance Company, and answered the following questions which were put to me over the top of a pair of spectacles by a slick old fellow with as round a gray head on him as was ever owned: "Are yu a mail or femail? If so, state how long yu have been so. Had yu a father or mother? If so, which? Are yu subject to

fits, and if so, do yu have more than one at a time? What is your precise fiting wate? Did you ever have any ancestors, and if so, how much? Du yu have any nightmares? Are yu married or single, or are yu a bachelor? Have yu ever committed suicide? If so, how many times and how much did it affect yu?" After answering these questions like a man, in the affirmative, the slick, little fat old feller, with gold spectacles on, said I was insured fer life, and probably would remain so fer years. I thanked him and smiled and retired.

Many an applicant less favored with the sense of humor that Josh Billings irresponsibly displayed, complicates the work of the agent by taking umbrage at the medical examiner or at the action upon his application in soliciting additional information from the home office. Anxious as the companies are to get a proper volume of business, the life-insurance applicant is none the less closely scrutinized, because a life-insurance policy means a large benefit for a relatively small premium and it is therefore incumbent upon the life-insurance company to eliminate those who, for moral or physical reasons, add to the normal hazard. Life insurance in its standard forms is for the healthy — those who are well in mind, body and view of life, and axiomatically these people can only get insurance when by being so qualified they necessarily feel least in need of it.

Any man eligible for life insurance has in that very eligibility a large asset in ability to command life-insurance protection at the small outlay of the premium. A man not able to qualify for life insurance is poor in the sense that his available funds must all be kept intact for necessities which death may materialize at any time, and is poor indeed when, in the absence of available funds, he feels that between him and death is but the meager sum that he may be able to save while death waits.

The only sure way to have life insurance is to get it

when it can be taken, and the person who delays the taking until a more financially convenient time may later learn of qualifications that bar him completely. To be rejected from life insurance does not, as so many assume, mean that death is a matter imminent, as life-insurance rejections cover more than the seriously diseased or impaired, and are of necessity based on human judgment, which may or may not be correct.

Upon the recent occasion of a life-insurance president's visit to one of his important agents, the agent humorously stated to him that the men who had been rejected in the community for life insurance had been complaining of over-exertion acting as pallbearers for those who were accepted.

Rejections in life insurance deprive the agent of any remuneration whatsoever for his services, and so far as these rejections can be avoided with supplementary information available to the alert agent, they will be so avoided. Custom has rightfully ordained that the matters submitted in a life-insurance application be deemed confidential, and the company therefore does not in general enlighten the agent or even the prospect as to the causes of rejection. Every man who is rejected or offered a qualified policy without explanation is disposed to feel somewhat aggrieved, and it takes all the fortitude of the agent to console himself without a home-office explanation. Frequently the man rejected by a life-insurance company applies for insurance elsewhere — which is one excellent way of confirming and putting to the test the judgment of the rejecting company upon the risk.

Ironically enough, many a man who applies for insurance in unwilling mood after long and wearying solicitation, finding himself rejected is changed at once into a feverish applicant for insurance, and in his eagerness to obtain it he

is prolific in sending applications and explanations to any company he thinks might take him.

Upon declining a chronic case of this type, a western company recently received this aggrieved epistle from the applicant, who thus accounted for his previous rejection:

> I made application to one of the eastern companies and they sent a little nut of a doctor to examine me, who asked all about my father, mother, grandfather and mother-in-law; how much they weighed; how far they could jump; if they were Mormons; how the family stood on the Japan question; if they had sore eyes; how they voted in 1892, and how old was Ann.
>
> After prying into all my personal affairs, and getting me to admit one set of false teeth in the family, he got down to the athletic stunt with me and punched me in the ribs, pulled up my shirt and listened through a telephone at my digestion, felt my pulse, slapped me on the chest, had me stick out my tongue and then stuck his fingers in my mouth to examine my teeth.
>
> All this time he was muttering over a lot of long names and some damned outlandish jargon, which, as I now believe, was certain opprobrious epithets which he was afraid to apply to me in plain English. After he had mussed and pounded me around for about an hour he went back to his office and filed a bill of complaint against me. The upshot of the whole matter was that I didn't get my policy.

It goes without saying that the company, the medical examiner and the agent are all most anxious to avoid rejections; the company loses the business and the costs, the agent loses the commission, and the doctor comes in for an unpleasant duty.

As a salesman, the life-insurance agent has two advantages: first, in supplying a need which the experience of years shows will be supplied only upon direct personal solicitation, and secondly, in the fact that practically every healthful person of insurable age is a prospective customer, either for a first policy or for additional insurance. Among pros-

pects for insurance, the man already carrying a considerable volume is the more desirable prospect. This is usually the case for the agent who has sold him his previous insurance, and for any other agent is the case where the applicant is carrying the full limit with the original soliciting agent or where he holds a grievance of misrepresentation against the original company.

"I was sold a sausage for a ham," was the complaint of one disgruntled policyholder over the work of an itinerant agent who grossly misrepresented, "and while I could only claim to have paid the price for a sausage I am not satisfied." There have been in the life-insurance business in the past too many agents who gilded the lily in gross exaggeration, consoling themselves with the thought that underneath the gild there still remained the lily, unmindful, in their weak dishonesty, that the lily was more impressive without the gilding. To these men, at times abetted by some of their kind in the home offices, are to be charged the misrepresentations as to policies and prospective dividends that have brought dissatisfaction.

From the days of the old "Let me take your life" insurance solicitor to the time of the present high-grade insurance representatives, marks a period that has almost completely removed from agency ranks the nonsuccessful, indolent and irresponsible agents of former years who were wont to ally themselves with some business and were, in their desire to assume a respectability of occupation, tolerated in life insurance.

This toleration was based upon a false managerial theory that so long as an agent was remunerated only on a commission basis, it was the agent and not the cause that suffered from the lack of quality in the man and the lack of quantity in his work. Reasoning of this kind, adopted by

analogy from other lines of business eager to engage men upon a commission basis without proper regard to the character of the man, has in a sense misrepresented the thousands of worthy life-insurance workers in the past by including men who had neither the quality to represent so sacred and important a business as life insurance, nor the energy to obtain results in sufficient quantity to remunerate them with a wage commensurate with the dignity of their calling.

With the elimination of the unworthy and nonsuccessful agent, ever the negligible few, by raising the standard of agency qualification to average up to the dignity, industry and integrity that has inspired the large majority of life-insurance workers in the business of insuring men's lives, the public has been quick to accord the life-insurance representative the professional recognition rightfully his.

"This decade, which has ushered in the era of conscience," says Charles Jerome Edwards, president of the National Association of Life Underwriters, "has also created an age of confidence, and nowhere is it more apparent than in public appreciation of and demand for life insurance. This is in part the result of the association idea, with the demand for clean methods, fair competition, the cessation of rebating and twisting, the elimination of the irresponsible agent who sold 'schemes' instead of life insurance, the ignorant part-time agent in our cities, and the 'one-trip salesman' in country districts."

The successful life-insurance agent is selling a proposition that needs no exaggeration. He is selling the one thing which the public can buy at cost and which no other institution can supply.

After selling the policy, the services of the agent continue to be of value to the purchaser. While life-insurance policies are written to-day with admirable brevity and con-

ciseness, in contradiction to the more involved instruments of earlier periods, there is little evidence of increased perusal and study of the life-insurance contract on the part of the insured. For this reason the expert knowledge of the agent properly utilized is a valuable asset to the insured, and is available over the telephone or in ready acceptance of an invitation to call. If a policyholder of an old-line life-insurance company would, upon being approached to drop or surrender the contract and take out a policy in some other old-line company, immediately consult the original agent or any agent enjoying his confidence, he would, as a rule, save himself a sum larger than the agent's commission for writing the insurance.

Among the rules for branding the kind of agent not worthy of confidence, none is of more general application than that of avoiding the "twister" who encourages the dropping or exchange of one policy with a reputable company for the selfish purpose of obtaining a commission by rewriting the policyholder in another company, to the policyholder's loss. Some few agents, taking advantage of the reaction against deferred-dividend policies, or policies in which the surplus was withheld for years to be divided at the end of a contract period, urged the surrender of deferred-dividend policies in order to sell the applicant a new policy upon the annual-dividend plan. This is "twisting" in its worst form, as by the surrender of this contract an applicant upon a deferred-dividend plan loses the advantage of all the surplus accumulated upon his contract, and loses the opportunity to participate in addition in the surplus of all members who retire before the end of the dividend period.

Generally speaking, no man should exchange or surrender an old-line policy at the advice of a "twisting" agent, and the man who would surrender a tontine or

deferred-dividend policy is wronged in addition by the forfeiture of his accumulated surplus. It is scarcely just to say that all " twisting " agents are dishonest, but it is safe to say that where not dishonest they represent the " holier than thou " type of man who thinks that a large pecuniary loss to the patron of a rival insurance corporation is more than offset by membership in the institution that he represents. The disturbed conditions in life insurance since the investigation took place in 1905, offered opportunity to the " twister " to ply his nefarious practices. Fortunately, however, the " twisting " type of agent was the first to succumb under the drastic reduction in commissions, and the high type of agent who stayed in the business to await a return of better conditions was, generally speaking, above advising a policyholder to his disadvantage in order to make a personal profit.

George T. Dexter, second vice-president of the Mutual Life, gives six reasons for concluding that " twisting is an evil which no honorable company can afford to treat with the least degree of allowance." The six reasons are:

1. Because it almost always works a direct injury to the policyholders rather than a benefit.

2. If in isolated instances it may prove to the pecuniary advantage of the policyholder, the question whether it is likely to do so must necessarily be settled by the twister himself. The latter is disqualified to decide the case, because he is pecuniarily interested in the outcome. He is not and can not be an impartial judge.

3. Even if occasionally the insured be benefited, too often the twister merely succeeds in dissatisfying the policyholder with the insurance he has, leading him ultimately to abandon the same without prevailing upon him to take another policy in its stead.

4. The net result of the twister's work is fewer people insured.

5. The twister culls out the good risks of the company victimized, resulting in adverse selection to the detriment of the remaining

policyholders. This is a grievous wrong to policyholders, and a gross violation of the ethics of the business of life insurance.

6. The practice is demoralizing to the business of life insurance in that it tends to provoke reprisals, setting the agents of all companies to preying upon the business of all others.

With the "twisting" agent has gone the rebater, as a necessary consequence of the reduced commissions, which, certainly in this respect, achieved a happy result. Of course, there remain men who go into the business from time to time, or who have made a meager living in it, too weak to insist upon the full price that would include a modest remuneration to themselves for their own efforts. There is not only in the life-insurance business, but in every business, the kind of man who could not fairly sell a twenty-dollar gold piece for nineteen dollars. It is of this kind of material that rebates have been made. Rebate laws have done much to place disapprobation upon the practice, both upon the receiver as well as the giver of a rebate, to the extent that the rebate is practically eliminated from life insurance, and the rebating agent made amenable, upon discovery, to discharge from company service and to criminal indictment under State statutes.

Credit for the war upon the rebater and the "twisting" agent and the "part-time" agent, who has been productive of rebates in forms too insidious to be clearly defined, is to be given to the life underwriters themselves, who, as individuals and in agency associations, have fearlessly fought abuses that subtract from the nobility of the business or tend to disregard the welfare of the policyholder. Among these agents was found the greatest opposition to extravagances current prior to the Armstrong investigation, in the payment in certain companies of large commissions, in addition to advances against future renewal interests that made

for rebates, and high-pressure agency practices that followed orders to "get results." These results were too often arrived at in the old days by offering insurance "flyers," with little or no cost to the purchaser the first year, and with the agent indemnified by the commissions and advances he received, and remunerated by a bonus on volume of business. Recognizing this as an unhealthy condition and one that necessarily made for rebates, the type of agent worthy to endure in the business came forward as a champion of reduced commissions that would eliminate extravagances of this kind, and with the extravagances eliminate gratuitous life insurance in the form of high-pressure, first-year "flyers."

Viewing the entire situation at the time of the Armstrong legislation, it was not unnatural that the restrictions adopted should be as far below the standpoint of true economy as the old scale of commissions adopted by many companies was above it.

As a preacher of the life-insurance gospel the agent must live by it, which differentiates the agent from the men engaged in other callings who halt at the desk, in the pulpit or on the platform to advocate life insurance for the benefit of their hearers. Typical of this class was the lamented Max O'Rell, who never lectured better than when he said:

> I don't care how small the income of a man is, he should never spend the whole of it, especially if he has a wife and children. He should at least save enough to pay every year the premium on a good life policy. No man is worthy of the name who does not do this at least at the price of whatever privations he has to submit to. Some pleasure may be derived from high living, but certainly no happiness. I will go further and say that while there may be pleasure in self-indulgence, pleasure for a few minutes, there is invariably happiness in self-abnegation, forethought and devotion to others, and lasting happiness, too. And what should make a man

always prefer happiness to pleasure is that it lasts ever so much longer.

Though the work of the agent naturally causes him to preach of the duties of his brother man, he poses only as a business man. The first to repudiate the missionary talk which a discredited life-insurance president made on the witness stand during the days of the Armstrong investigation about the "eleemosynary character of the agent and his work" was the agent himself in disgusted denial.

He tells the prospect of his duty with a diplomacy that avoids criticism, and with a frankness permissible with professional privilege. As a business visitor and associate the life-insurance agent is valuable for the breadth of view which comes with dealing with a variety of men, for the toleration which must be his to understand that every man has a right to view his own obligations in his own way. Toleration is one of the most necessary qualities of the agent ere he be given opportunity to answer the sophistries of a man who does not believe in his own utterances or who is too willing to believe the impossible when it comes to life insurance.

A life-insurance story at present going the rounds of the press tells of an agent who apparently considered that there was a limit, beyond which toleration was no longer a virtue. With a cheery "Good morning," this agent is represented as visiting the office of a "bloated plutocrat who already had a hundred thousand on his life, and a guarantee from his physician that he would never pay another premium."

"I represent the Incidental Life and Trust Company," said the agent.

"Don't do it here," was the response.

Apparently without taking offense or changing attitude, the agent continued:

"What would you say to a policy that would pay you an annuity of twenty per cent in advance, beginning at once?"

"Umph," said the plutocrat.

"Then if you die within ten years, you get double the face value of the policy, and the sooner you die the more you get."

"Don't believe it."

"After you are dead your children get an annuity of five per cent each as long as they live."

"Don't see how it can be done."

"That means," continued the agent, doing a lightning calculation, "if you have twenty children, the company will pay out the face value of the policy annually as long as your children live."

"Yes, and what's the premium?" growled the banker, with sordid sarcasm.

"The premium can be paid out of your own annuity, which will leave you a net income of about fifteen per cent."

"Well, I might investigate that," said the conservative man of business, "but it sounds fishy."

"It is," replied the youth, as he departed.

Whether this interview ever took place or not, it is worth repeating for the moral it points of the lack of appreciation which even intelligent men have of the opportunity for life-insurance knowledge afforded by the visit of an agent or for seriously considering the matter of life insurance. Alternatively, this story points to the willingness of men who should know better than to listen to apparently impossible propositions, when offered in the name of life insurance, as the primary cause for the creation of all manner of fanciful forms of life insurance and all kinds of fanciful forms of life-insurance prevaricators.

Responding to the law of supply for evident demand, a few irresponsible new companies came into being within the last decade, selling life insurance with special stock schemes or offering special contracts in addition to the policy that would carry profits on the business. The estimates under these contracts were wholly absurd, but the absurdity did

not seem apparent to many who purchased them. The operation of the special advisory board contract, or of the special privilege of purchasing stock in a subsidiary agency company or other corporation associated with the sale of the life-insurance policy, has worked out to the great disappointment of the patrons and called down upon the special contract legal prohibitions. Coupled with supplementary contracts and other fanciful provisions, is the inherent cost of covering losses by death which remains in the contract and to which is added an additional cost from being harnessed to a supplementary contract unsalable upon its merits alone.

With the elimination of the misrepresenting agent, of the high-pressure methods of the big company extravagantly "getting results," and of the special contract and all other forms of supplementary contracts by the younger company, the business has been purged in its agency department, leaving a quality of man in the agency rank and file not excelled in any business and comparing favorably with the rank and file of the professions.

And why not?

To quote one of the most successful general agents of the country, John I. D. Bristol, of New York city:

> The profession of life insurance affords a vocation alike gratifying to the higher faculties and satisfying to those prudential qualities whose aim is a competency from a noble calling in life. The successful representative of a great life-insurance company has daily opportunities of self-cultivation. He is brought in hourly contact with the most successful business and professional men. A perfect human nature becomes his daily theme. The saving of homes, the education of children, the prevention of embarrassed estates, the creation of competencies for age, and a sure provision for mothers and widows are associated with and dependent upon the advice he gives and the acceptance of the figures and plans he offers. Life insurance at its best is the highest philanthropy for the best of men, and an ideal selfishness for those less gifted in

tender and benevolent feelings. The acceptance of its benefits ennobles both the men who professionally offer them and him who accepts them.

Life-insurance work goes on by the work of the agent, and it is a work that makes the home happier and more secure. As such it makes happier and more secure the community, the commonwealth and the federation. Whatever life insurance is, the agent has made it. Whatever life insurance will attain, the agent must make it. All the millions that life insurance has paid out have been paid at the suggestion of the agent, and all the untold millions and billions that life insurance will pay upon the policies in force to-day, and which will be put in force in the years to come, follow and will follow the work of the agent and go where he goes.

When the agent calls, let it be remembered that opportunity knocks, and that where the agent stays and persuades, the policy later on saves and pays. Selling the one thing which must be sold in personal visit, the agent compliments where he visits in the assumption that the visited is ready and willing to cover his obligations as they are shown to him whether they precede or succeed his death.

The agent who insures a man who needs insurance does him a favor, which, in its importance to the prospect and his family, minimizes the favor of patronage which the agent receives, and the importance that this agent attaches to the patronage.

Passing from the unit to the mass, from the individual policyholder, to view the multitude of insured people, exemplifying in this splendid system of coöperation literal compliance to the injunction "Bear ye one another's burdens," is to pass from the work of the individual agent to the collective forces of life insurance, as represented in such

bodies as the National Association of Life Underwriters. In thoughtful appreciation, Henry Morse Stephens, professor of history in the University of California, addressing the 1908 National Convention of Life Underwriters, gave voice to the social importance of the agent's work when he said:

> The business that lies before you, it seems to an entire outsider, is not simply to write this, that or the other policy, but to educate, as you have educated, the people of the United States into the belief that poverty is not a necessary part of a modern State; that poverty is something that can be eliminated by the evolution of the modern system of insurance. I do not stand here to talk of any particular measure, for or against; I do not stand here to advocate any particular measure, but simply to point out that the trend of the centuries has been toward the recognition of the duty of the State with regard to the poor and the afflicted and the dependent; that the trend is moving fast toward paternalism in certain countries. . . . . Whether or not paternalism becomes a characteristic of the future evolution of the American government — as it is becoming a part of the development of the European governments — depends precisely upon such associations as this, upon such people as I see before me here. You may regard paternalism as a good thing. You may think it is time that the United States should take its place among the great paternal powers. You may, however, take the precisely opposite view — I believe most individualistic Americans do. In which case let me warn you, as only a student of the centuries has a right to warn you, that if you desire to avoid paternalism you must carry on a great campaign of education, and teach the people to take care of themselves, and to look after their own future, or else the demand will inevitably come that the State shall look after them and look after the future for them.

Professor Stephens' tribute to the workers of life insurance is no more noteworthy than his comments on the menacing alternative of State insurance or State systems of old-age pensions. In an editorial upon this subject, in 1909, the New York *Sun* concluded:

> The idea of depending on government for support, if it once obtained a foothold, would have an effect both upon independence

of individual character and upon the whole attitude of the people toward the government, the gravity of which it is impossible to estimate.

The cause of the agent is truly the cause of the individual, the home and the nation.

In the words of another great educator:

"The individual, the home and the nation," said Dr. Nathan C. Schaeffer, Pennsylvania's superintendent of public instruction, and the then president of the National Education Association, "owe the founders of safe and reliable life insurance a debt of gratitude which words can not express, but which hearts can feel and homes can show, and which the State should never fail to recognize in its protective legislation."

Whatever there is of the public good in the act of insuring one's life remains undiscussed in the agent's canvass. None the less it remains, and remaining, sheds luster on the labors of the agent — the life-insurance ambassador.

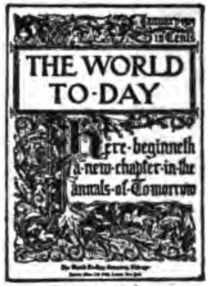
INDEX

W

Y

THE WORLD TO-DAY

THE ONE MAGAZINE INDISPENSABLE TO EVERY HOME



Cover in Colors

WHILE it is a monthly world review designed to keep the busy man or woman in touch with the world's happenings, it has still another mission—*to entertain.* To accomplish this double purpose it furnishes monthly, not only a complete digest of events, but many attractive articles on timely subjects, written by the foremost men and women of the day. In it you will find history, travel, science, invention, finance, business, art, literature, drama, sport, education and religion. New departments are—"The Story of The Play" (a complete synopsis and dialogue of the leading play of the month) and "Music Review."

THE WORLD TO-DAY prides itself on its attractive make-up. It is *printed in colors* and each issue is made a veritable panorama of the world by the many illustrations (more than given in any other magazine) of noted people, places and events.

The result is a publication that you will seek with joy, because you will know in advance that it will afford diversion for the idle hour, and best of all—*something worth while.*

Other magazines of its class have advanced in price, but THE WORLD TO-DAY, while in every respect a $3.00 magazine, is still but $1.50 a year.

WHAT THE CRITICS SAY:

"For variedness and freedom from scholastic dry-rot we recommend The World To-Day."— Chicago *Record-Herald.*

"Of all magazines devoted to subjects not frivolous and which do not rely on fiction for their appeal, this is probably the best."— Indianapolis *News.*

"The World To-Day always presents a remarkable list of attractions. It is beautifully illustrated."— The Boston *Herald.*

"The World To-Day is worth twice its cost."— *The Christian Advocate,* New York.

"There is certainly nothing in magazine literature to compare with it at the price."— Buffalo *Times.*

"We do not see how any wide-awake person can get along without it."— *The Standard,* Chicago.

"All sorts and conditions of men and women will find in this attractive magazine something to satisfy their likings in the way of good magazine reading."— Pittsburg *Dispatch.*

At all news-stands, 15 cents. By mail, $1.50 a year.

THE WORLD TO-DAY CO. - - CHICAGO

THIS BOOK IS DUE ON THE LAST DATE STAMPED BELOW

AN INITIAL FINE OF 25 CENTS
WILL BE ASSESSED FOR FAILURE TO RETURN THIS BOOK ON THE DATE DUE. THE PENALTY WILL INCREASE TO 50 CENTS ON THE FOURTH DAY AND TO $1.00 ON THE SEVENTH DAY OVERDUE.

FEB 8 1933

JAN 26 1934

OCT 3 1936

4/11

2

JUN 29 1938

JUN 21 1940

JUL 5 1940

APR 4 1941

MAY 12 1943

JUN 7 1948

20Nov'49GE

INTERLIBRARY LOAN

MAY 03 1993

UNIV. OF CALIF., BERK.

LD 21-2m-1,'33 (52m)

YB 17998

258740

Graham

HG 8771
.G8